



TAMPERE UNIVERSITY OF TECHNOLOGY

TAPIO TURTA

**ORGANIZATIONAL READINESS FOR CHANGE IN THE
TRANSFORMATION TOWARDS SERVICE BUSINESS**

Master of Science Thesis

Prof. Miia Martinsuo has been appointed as the examiner at the Council Meeting of the Faculty of Business and Technology Management on February 2nd, 2011.

ABSTRACT

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This thesis examines organization's readiness for change when moving towards service business. Especially for traditionally product-centric manufacturing companies, services can be seen as a potential way to gain competitive advantage. The focus of this thesis is on Finnish-based product-oriented companies operating in metals, engineering and construction industries. The main research question is as follows: How can the readiness for change be taken into account at the early phase of the transformation process towards service business? The objective is to identify factors and elements of organizational readiness for change that are relevant in the business transformation and thus give suggestions to managers at companies willing to make transformation from products towards services.

Multiple case study method was used and the empirical data were collected through semi-structured thematic interviews. Altogether 31 interviews were conducted in six different business units. The theoretical part of the study reports the relevant literature from the fields of strategic change and its management, organizational readiness for change and transformation towards services. Based on the literature review, a conceptual framework for organizational readiness for change was built to assist the analysis of the empirical data. The empirical part of the thesis is concerned with the results of the interviews, namely the elements of the organizational readiness for change and how those appear in the early stage of the business transformation.

The main finding is that the content of the change, i.e. the clarity of objectives, scope of change and the change message, is somewhat unclear and needs to be taken into account at the early stage of the business transformation. Clarifying the objectives regarding services and thus initiating so-called service-talk within the organization is suggested. Also, allocating needed resources, top management support, and using an IT system supporting the services are requirements in the transformation. The receptivity of customers and the industry's readiness for change for new kinds of business models must be assessed before taking further steps. In turn, the psychological readiness of individuals seems to be at a good level, promoting the organizational readiness for change. Bringing changes step-by-step to the organization and building an organization culture receptive for changes is a mean to improve organizational readiness for change in the transformation from products towards services. Possible future research topics could include investigating industry's readiness for change, validating the framework used, and reviewing the whole readiness for change literature.

TIIVISTELMÄ

TAMPEREEN TEKNILLINEN YLIOPISTO

Tuotantotalouden koulutusohjelma

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Tämä diplomityö tarkastelee organisaation muutosvalmiutta liiketoimintamallin muutoksessa tuotekeskeisestä liiketoiminnasta palvelukeskeiseen. Palvelut nähdään yhtenä potentiaalisena vaihtoehtona saavuttaa kilpailuetua erityisesti perinteisesti tuotekeskeisille yrityksille. Tutkimuksen fokus on suomalaisissa tuotekeskeisissä yrityksissä metalli- ja rakennusteollisuuden toimialoilla. Päättökysymys on määritelty seuraavasti: Miten organisaation muutosvalmius voidaan ottaa huomioon liiketoimintamallin muutoksen aikaisessa vaiheessa kohti palveluliiketoimintaa? Tavoitteena on tunnistaa tekijöitä ja organisaation muutosvalmiuden elementtejä, jotka ovat merkityksellisiä tämänkaltaisessa muutoksessa ja antaa ehdotuksia tulevaisuuden toimenpiteistä palveluliiketoimintaa kohti aikovien yritysten johtajille.

Tässä työssä on käytetty monitapaustutkimusta ja empiirinen aineisto on kerätty puolistrukturoitujen teemahaastattelujen avulla. Kaiken kaikkiaan suoritettiin 31 haastattelua kuudessa eri yksikössä. Työn teoreettinen osio koostuu kirjallisuudesta strategisen muutoksen ja sen johtamisen, organisaation muutosvalmiuden, sekä palveluliiketoimintaan siirtymisen aloilta. Kirjallisuuskatsauksen perusteella on muodostettu käsitteellinen viitekehys organisaation muutosvalmiudesta diplomityön empiirisen aineiston analysointia varten. Työn empiirisessä osassa käsitellään haastattelujen tuloksia tarkastellen aikaisemmin luodun viitekehysten sisältämiä muutosvalmiuden eri elementtejä ja sitä, miten elementit ilmenevät aikaisessa vaiheessa liiketoimintamallin muutosta kohti palveluja

Työn merkittävin löydös on, että muutoksen sisältö, eli tavoitteiden selkeys, muutoksen laajuus ja muutosviesti, on epäselvä ja se pitää ottaa huomioon liiketoimintamallin muutoksen alkuvaiheessa. Palveluihin liittyvien tavoitteiden selventäminen ja täten yksityiskohtaisen ”palvelukeskustelun” aloittamista organisaation sisällä suositellaan. Lisäksi tarvittavien resurssien kohdentaminen, ylimmän johdon tuki ja palveluita tukevan tietojärjestelmän käyttö ovat vaatimuksia muutoksessa kohti palveluita. Asiakkaiden vastaanottavaisuuden ja koko toimialan muutosvalmiuden määrittäminen uusille liiketoimintamalleille pitää tehdä ennen seuraavien askeleiden ottamista. Toisaalta yksilöiden psykologinen valmius on hyvällä tasolla ja edistää organisaation muutosvalmiutta. Muutosten tuominen vähitellen organisaatioon ja siten muutosmyönteisen organisaatiokulttuurin rakentaminen on keino parantaa organisaation muutosvalmiutta palveluihin siirtymiseen. Jatkotutkimusaiheiksi ehdotetaan toimialan muutosvalmiuden tutkimista, tässä työssä käytetyn viitekehysten vahvistamista sekä muutosvalmiuskirjallisuuden yhtenäistämistä.

PREFACE

The beginning of writing this thesis was somewhat new to me. After a pretty sluggish fall and Christmas vacation I jumped to working life, and started as a research assistant at the Department of Industrial Management at Tampere University of Technology. Everything was new to me, and I was extremely excited about the topic of my thesis. Suddenly, I was in the middle of collecting the empirical data and traveling around Southern Finland. After that, the summer came and I realized that the graduation is not far. All I can say is that the time has really flown.

The role of my supervisor, and at the same the examiner of this thesis, Professor Miia Martinsuo, has been tremendous. Not only was she easy to talk to and ask for advice, but most of all she challenged me and my thoughts during the writing process in an admirable way. Thank you. Also, I want to point my humble word of thanks to everyone participating in the interviews and workshops in the case companies.

Finally, I want to thank the amazingly easy-going working environment and colleagues at the Department of Industrial Management at TUT.

Tapio Turta

Tampere, August 18th, 2011

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1. INTRODUCTION

The purpose of this chapter is to give a short introduction to the thesis in general. In practice some background information on organizational readiness for change in the context of business transformation is given in brief, and the research context and scope are clarified. Research questions, as well as the objectives of this thesis are described, and in the end the structure of this thesis is represented.

1.1. Background

Both academics and practitioners have acknowledged the growing importance of services when companies are trying to maintain revenue streams and profitability in the future. Especially for traditionally product-centric manufacturing companies, services can be seen as a potential way to gain competitive advantage (Gopalani 2010; Baines et al. 2009a; Kindström 2010), although the turnover services generate is still at a low level in European manufacturing firms in general (Lay et al. 2010). To describe this kind of business transformation towards services on an organizational level, the term “servitization” was introduced by Vandermerwe and Rada (1988), and since then this topic has gained more and more attention also in the literature (Baines et al. 2009a).

Company’s business transformation and strategic change in turn has also gained a good deal of attention in the literature. Already in 1947 Lewin introduced his 3-step model about change management. Much has changed since those days, but the need for change and change management has not disappeared, vice versa. For example Armenakis and Harris (2002) have discussed this topic and describe the change process to be a 3-phase process, where the phases of readiness, adoption, and institutionalization overlap and the process is continuous. Foster and Kaplan (2001) go even further when they argue that in order to stay ahead of the competition, a company must understand the concept of creative destruction and constantly seek for new opportunities, and hence change according to these opportunities.

This thesis tries to combine these two points of view and thus examines an organization’s readiness for change in the transformation towards service business. There is not too much literature about the issue and because of that it can be argued that there is a room and need for this kind of research. Much of the literature about change towards service business deals with marketing and customer orientation (e.g. Grönroos 2008, Matthyssens & Vandenbempt 2010). The role of the customer in delivering and selling services is inevitably essential, but this thesis does not focus on that part of

service business. The novelty is that the organizational readiness for change as a concept and the transformation towards services, particularly the earliest phase of it, are combined.

1.2. Research context and scope

This thesis is a part of a bigger research project conducted in Finland, called Future Industrial Services (FutIS). The program is steered by Finnish Metals and Engineering Competence Cluster (FIMECC), and funded by the Finnish Funding Agency for Technology and Innovation (Tekes) and several companies and research institutes. The program is planned to last until the end of 2015 and the overall budget is nearly 40 million Euros. The purpose of the whole FutIS program is to create new competencies and improve profitability in the participating companies and identify long-term strategic benefits and business potential related to services. (FIMECC 2011.)

The context of this thesis will be in Finnish metals, engineering, and construction industries. The empirical data will be gathered from two different companies, altogether from six different case business units. As a case study, this thesis does not try to make generalizations or universal conclusions. The scope is rather to describe and find out speculative explanations to the organizational readiness for change in this context. The case companies represent different industries and have differing offerings. The shared domain is however the interest towards services and the early phase of the transformation process.

From the academic point of view, the literature currently dominating the field of servitization, i.e. from the marketing point of view, is mostly excluded. The interest will be on the change and transformation itself. For example Madsen et al. (2006) have noticed that change is discussed in the literature at various levels, such as individual, group, and organization wide levels. In this thesis the change and therefore also the readiness for change will be discussed in the organization wide level. The emphasis will rather be on describing the organizational readiness for change in association with servitization as a phenomenon.

1.3. Research questions

The main focus of this thesis is on the organizational readiness for change in the context of a manufacturing company moving towards services and service business. The interest is particularly on companies at their early stages or phases of the transformation process. The main research question is formulated as follows:

How can the readiness for change be taken into account in the transformation process towards service business?

The main research question is broken down into two distinct sub-questions:

What are the possible challenges and barriers that decrease the level of organizational readiness for change?

What kinds of good practices can be identified in a company's processes that strengthen organizational readiness for change?

These research questions and thus the empirical part of this thesis are first approached through a literature review about the issue in question. The empirical part and discussion are to answer the research questions more straightforwardly.

1.4. Objectives

The general objective of this thesis is to identify factors and elements of organizational readiness for change that are relevant in the business transformation. More in detail, this is divided into three categories. First of all, from the academic point of view the understanding of organizational readiness for change is deepened. The second objective is managerial, meaning that the case companies and business units have their own interests towards the results and contribution of this thesis. Finally, since this thesis is a part of a bigger research program, the needs for this research program are addressed. The objectives are shown in the figure 1.1.

Academic objectives	Managerial objectives	FutIS objectives
<ul style="list-style-type: none"> • Deepen the understanding of organizational readiness for change 	<ul style="list-style-type: none"> • Give suggestions how to manage organizational readiness for change • Discover factors that decrease and improve organizational readiness for change 	<ul style="list-style-type: none"> • Create a preliminary framework for organizational readiness for change in the service business transformation • Create a base for further study on transformation towards services

Figure 1.1. *The objectives of the thesis.*

Academic objectives mean that the understanding of the phenomenon of organizational readiness for change is aspired to be deepened. The previous literature about the issue is seen as complicated and for example there is no universal definition for such concept

yet. The emphasis will not be on this objective, but it is seen that some contribution is possible to achieve within this thesis.

The managerial objectives in practice mean that based on the research problem and questions, some suggestions about how to manage organizational readiness for change in the early phase of the business transformation are looked to achieve, by answering the research questions. Discovering and identifying factors that are challenging and factors that improve organizational readiness for change is the second managerial objective.

The third category of objectives is related to the research program context, namely FutIS. The research program is divided into three different working packages, Service Business Mindset being the particular package this thesis belongs to. One task of this working package is to develop a framework on the companies at their early phases of strategic changes towards services. (FIMECC 2011.) This thesis therefore tries to contribute its own part to this task. As the research program is planned to last until the end of 2015, one objective of this thesis is to do some groundwork, and thus create a base for further study and research of business transformation and readiness for it.

1.5. Structure

The structure of this thesis is represented in detail in the figure 1.2. Besides chapter one, introduction, the structure can be divided roughly in four parts, namely research methodology, theory, results, and discussion and conclusions.

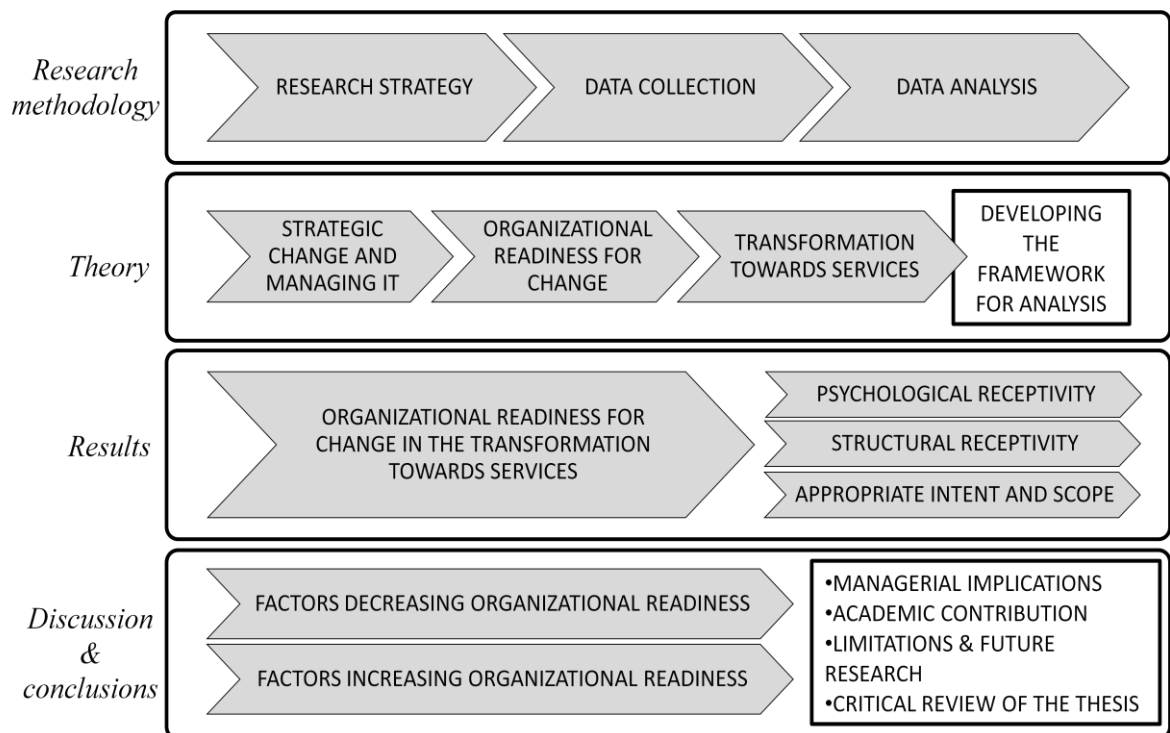


Figure 1.2. *The structure of the thesis.*

After the introduction chapter the research methodology is described. In practice this means a short review of the research strategy, describing the data collection methods and principles, and explaining how the data has been analyzed.

Chapter 3 is dedicated to the literature review. It begins with discussing business strategy and changing it in overall, and continues with the concept of readiness for change. After this the transformation towards services, i.e. servitization, is discussed. The last part of literature review combines these previously mentioned concepts and academic discussion under the same headline, organizational readiness for change in the context of servitization, and the framework that will be used further on in the results part of the thesis is developed.

The empirical part, chapter 4, illustrates the results of the interview data. The results are discussed systematically based on the analysis tool. After this, in chapter 5, results are discussed further and conclusions are made based on those results. Discussion chapter is the most important part of this thesis, as it answers the research questions and proposes some points of improvement for the case business units and possibly companies in the same situation. Finally, managerial implications, academic contribution, limitations and future research, as well as critical review of the thesis are represented in the conclusion chapter.

2. RESEARCH METHODOLOGY

This chapter discusses and clarifies the qualitative research strategy, the data collection methods, and the data analysis procedures that are utilized. In general, the purpose is to justify the reasons behind the methodological choices, to show the reader that the whole study is conducted based on conscious choices on the research strategy, research approach, data collection and data analysis, and thus bring transparency to the research.

2.1. Research strategy

The context of this research sets up its own limitations and requirements for the research strategy and approach, and thus sets up the wider methodological frames for the thesis. Basically this thesis follows qualitative multiple case study research strategy, where the approach is inductive and the data is collected through semi-structured thematic interviews. These choices are rationalized and discussed more in detail in the following.

First of all, as Saunders et al. (2009, p. 141) argue, no research strategy is better than some other research strategy, but it is the research question and objectives that greatly determine, which strategy is more suitable than some other for a certain research. Yin (2009, p. 8) further on argues that besides the research question, there are also two other conditions that should be taken into account when considering the research strategy to use. He sees that the extent of control an investigator has over actual behavioral events and the degree of focus on contemporary as opposed to historical events also justify, which research strategy is more suitable than some other. The main research question of this thesis is exploratory by its nature, trying to increase the understanding on the topic in question. Also, within this research it is seen that the researcher has little control over the events, and that focus is on a contemporary phenomenon in a sense that the transformation process from products to services is very unique and contemporary, although a long, phenomenon. These factors are regarded as typical for case studies, according to Yin (2009, pp. 2, 6).

Secondly, it is worth noticing that the research strategy in this thesis is particularly multiple case study. In practice this means that there are several similar kind of cases that are researched and analyzed. As Yin (2009, p. 15) has written, a “*common concern about case studies is that they provide little basis for scientific generalization*”. Although the objective is not to generalize findings, due to the multiple cases there may still be found similarities between cases and thus some possible, hypothetical generalizations.

The research approach is purely qualitative in this thesis. Since the strategy is multiple case study and the purpose is to deepen the understanding about the topic, rich qualitative data is needed. The emphasis is not on collecting a great amount of quantitative data, test hypotheses on it and generalize findings, but rather on creating a deep, preliminary view of the topic. Also, as Creswell (2009, p. 17) has noticed, those researchers using qualitative approaches typically for example employ the strategy of case study, focus on a single concept or phenomenon, make interpretations of the data, create an agenda for change or reform and collaborate with participants. This is actually the situation in the context of this thesis also. The focus is on the organizational readiness for change in a particular phase of a business transformation, and one objective is to discover issues where to concentrate on within the case organizations.

2.2. Data collection

The empirical data were collected through semi-structured thematic interviews in the case business units. The focus is on six business units in two industrial companies in the engineering and construction industry. The common denominator is that they all are seeking growth in their sales through new service business and are at the early stage of this business transformation. Also one management-level unit is included, which refers to interviews within the other company's employees not working directly within any other business unit mentioned. The products business units sell are high-quality, material-based intermediary components, offered to other industrial companies to assemble or engineer the components further in their processes. The case companies and thus business units were pre-fixed by the FutIS-research program.

Altogether 31 semi-structured interviews were carried out in the business units. The interview outline was composed of four different parts. First of all, some background information about the interviewee was collected. The second part covered the background information about the organization the interviewee represented. After this, the current state of services and service business was discussed to get the general overview of the case business unit and the meaning of service business within it. The last part was the most important, covering the issue of organizational change and readiness for change. The interview outline is attached in the end of this thesis as the appendix 1.

To maintain the anonymity of the case business units and interviewees, interviews will be referred only to as numbers from 1 to 31. Interviewees were obtained through snowball sampling, meaning that once contact persons were identified and interviewed, they were asked to identify next, potential interviewees. The purpose was to get a comprehensive picture about the situation in each business unit; therefore as many organizational levels and different departments are covered as possible. In the table 2.1 below the summary of business units and interviews is represented.

Table 2.1. *Summary of business units and interviews.*

	BU1	BU2	BU3	BU4	BU5	BU6
Industry	construction	engineering and construction	engineering and construction	engineering and construction	engineering and construction	engineering and construction
Position in the company	manufacturing site with sales	service center	service center	service center	sales office	national business unit management
Interview data	8 interviews (9 persons)	6 interviews	6 interviews	4 interviews	4 interviews	3 interviews (4 persons)
Interview duration average	45 min	56 min	57 min	55 min	41 min	85 min

Interviews were conducted between February and May in the spring 2011. On average 3-4 interviews were carried out in a day, usually a couple of days per week. Interviews were tape-recorded and later on transcribed by an external company offering transcribing services.

2.3. Data analysis

The data analysis was conducted through creating a preliminary, conceptual framework based on the literature and the first interviews. Since the collection of qualitative data results in non-standardized data, requiring classification into categories (Saunders et al. 2009, p. 482), the most important aspects from the interviews were collected, summarized and bundled under shared titles. Soon the topics and issues discussed in the interviews saturated and the preliminary analysis tool was built. After conducting all of the interviews, the interview transcriptions were processed and read through, and the relevant comments, quotations and ideas were classified into an Excel-sheet containing the elements of the framework.

The interviewee excerpts that are quoted later on in the results chapter were chosen based on a couple of principles. First of all, a quotation could have been chosen because it is somehow unique or surprising. Also, if some themes of issues emerged frequently, it was seen worth reporting. In some cases there was seen either similarities or major

differences between case units. Also these kinds of quotations are reported, although the purpose is not to report business unit -specific things on a single case level. The results were represented in company-specific workshops after the analysis, and thus the findings were confirmed. The results will be reported systemically based on the theoretical framework in the chapter 4.

The time frame that was available for doing the interviews, i.e. collecting the data, making the transcriptions by an external company, and analyzing the data, created its own challenges. The analysis was started before the last interviews were conducted and some of the topics or themes discussed in the interviews did not come up until the latter half of the interview round. However, although this might cause a problem for the reliability for this thesis, i.e. the interview question body evolved, the positive effect is that some topics were seen as very important from the final outcome and findings' point of view.

3. LITERATURE REVIEW

In this chapter the relevant literature regarding strategic change, organizational readiness for change, and transformation towards services is discussed. The purpose is to guide the reader to the topic of this thesis from the academic point of view and to create a strong theoretical base for the empirical part of this study. This chapter begins with defining the concept of business strategy and discussing its change. After this the term readiness for change is covered, both from the individual and organizational point of view. The third sub-chapter is about servitization, i.e. the business transformation towards services. Finally, in the end of this chapter, these concepts are discussed together and the preliminary conceptual framework is illustrated.

3.1. Changing business strategy

3.1.1. The concept of strategy

Before going into too much detail, how business strategy can and should be changed, and what are the main elements to change or consider, the concept of strategy must be clarified. According to Mintzberg (1978, p. 935) strategy can, in common terminology, be defined as a plan, which includes deliberate and conscious set of guidelines. This in turn determines the decisions made in the future. Also Hambrick and Fredrickson (2001, p. 49) see that strategy should answer the question how a company is going to achieve its objectives. Further on, they argue that strategy is a concept which is integrated and overarching, but however everything that a company does or the executives decide is not strategy. They for example exclude internal organizational arrangements, such as compensation policies, information systems and training programs, from the concept of strategy.

Mintzberg and Lampel (1999, pp. 22–25) have discussed the abundance of the strategy literature, and identified and reviewed altogether ten different schools of strategy formation: Design, planning, positioning, entrepreneurial, cognitive, learning, power, cultural, environmental, and configuration schools. This is to say that the literature about strategy and strategy formation is already more than plentiful. Thus, for the sake of simplicity, within this thesis these different schools and their characteristics are excluded, and instead it is seen as adequate to define the strategy to be *the common set of guidelines within an organization, where the decisions are based on and which guides the daily functioning*.

A framework which deals with strategy and the issues that are important when building, revising and shaping strategy is the strategy diamond by Hambrick and Fredrickson (2001). They argue that there are altogether five different elements of strategy which a company's business strategy should cover. These elements are arenas, vehicles, differentiators, staging and economic logic. (Hambrick & Fredrickson 2001, pp. 50; 53–56). They state that the element of arenas actually sets up the question, where should the company be active in. This element also includes the question about the products and product categories a company wants to be involved in. Vehicles in turn answer the question how the company will get to those arenas. In order to win in the chosen marketplace, some differentiators must be thought through. Staging refers to the speed and sequence of the moves that a company makes in order to implement the strategy – where to be active in, with what products, how to get there and how to win and compete against other companies in those selected markets. The last element, economic logic, is the idea how the company makes the money out of its business and is thus the heart of the business strategy.

Abell represented already in 1980 that a business strategy should answer to three questions. First of all, it needs to be considered who the customers are. When taking into account the chosen customers and their needs and preferences, a company must think through what customer needs will be satisfied. The third question is how these customer needs will be satisfied. (Abell 1980, p. 169.) Although Hambrick & Fredrickson have clearly widened and deepened Abell's idea, questions who, what and how are very relevant in the beginning of the strategy planning process.

Based on the ideas of Hambrick & Fredrickson, and Abell, it would seem that planning a business strategy is an easy task. Also implementing it can appear to be rather oversimplified. However, the literature suggests that there are differences between the intended strategy and realized strategy. In practice, the planned strategy may not be realized. Mintzberg (1978, p. 935) separated the concept of intended strategy from the term realized strategy. His argument is that the intended strategy is actually an explicit plan that is developed consciously and purposefully, and made in advance of the actual decisions that are done in order to implement that strategy. Realized strategy, in turn, Mintzberg defines as “a pattern in a stream of decisions”. By making this kind of a separation between the intended and realized strategy allows us, according to Mintzberg, to research the strategy formation better. (Mintzberg 1978, p. 935.)

In general, Mintzberg's (1978) proposition helps us to view strategy from two points of view. Intended strategy is actually a precursor to the realized strategy. In today's business environment these are rarely the same. As the need and ability to change the strategic course becomes more important all the time, new intended strategies are made and the realized strategy can be very different from the intended one. In this thesis the intended strategy is emphasized, because the transformation from the product-oriented

company to a service-oriented company clearly indicates the need to make a purposeful and consciously developed strategy.

Mintzberg (1978) has in a way combined these two types of strategies mentioned earlier. He sees that there are altogether three types of strategies, which all have a link to both intended and realized strategy in their own ways. These are shown in the figure 3.2 below.

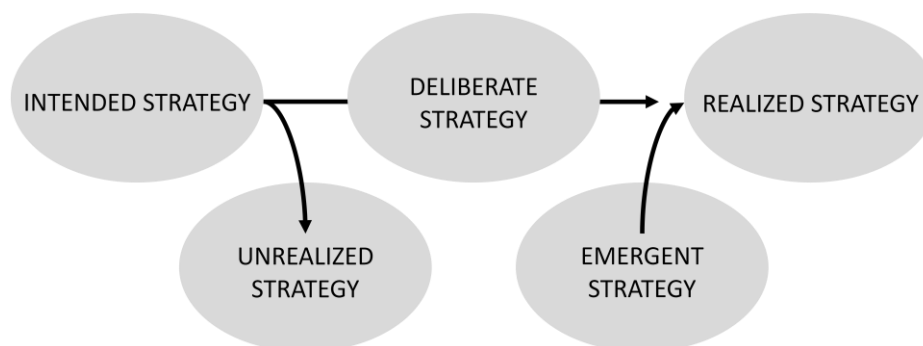


Figure 3.2. *Types of strategies by Mintzberg (1978).*

Although intended strategy may be very well planned and defined, the outcome is not always necessarily realized in the way that it is planned. Therefore Mintzberg has identified following types of strategy; deliberate, unrealized, and emergent strategy. Deliberate strategy is actually the strategy where the intended strategy leads to the realized strategy. According to Mintzberg unrealized strategies are literally the strategies where the intended strategies do not get realized. The last type of strategy is emergent strategy, which in turn emerges along the way and was never even intended. (Mintzberg 1978, p. 945.) Some may argue that a company has succeeded if the realized strategy is the same as the intended strategy. This point of view overemphasizes the meaning of intended, i.e. planned strategy. What is more important is that the top management of an organization should acknowledge the different types of strategies and that it is the realized strategy that matters.

As a summary, the concept of strategy is relatively easy to describe in general, and the elements it usually includes simple to list. The reality is different, however. When taking the concept into practice, the guidelines for the decisions and preliminary plans may not produce the wanted outcome and the result may be something totally different than thought. A company and its top management must set the right direction and take it for granted that some parts of their organization's strategy emerge and cannot be planned beforehand.

3.1.2. Reasons to change the strategic course

There are various reasons why at times companies must revise their current strategy. Drucker has brought out a term called age of discontinuity already in 1969 in his book

with the same title. Foster and Kaplan (2001, p. 16) have also adopted this concept and argue that it is reality today. Since then, by latest, much of the literature has taken it for granted that nothing is more secure than change.

Ginsberg & Buchholtz (1990) have pointed out that there is a debate among organizational theorists about the nature of change. According to them, rational adaptation theorists argue that the changes are planned, whereas natural selection theorists argue that not all change in organizations are planned or managed, and the change is more evolutionary. Without going too much in detail to the differences between these two theories, we content ourselves with noticing that the perspective of this thesis is to see changes as planned and managed.

The classifications of drivers of change in the literature seem to focus both on intra- and extra organizational aspects, emphasis being on the latter one. For example Meyer (2009, pp. 201–204) has listed four different drivers of change, namely market liberalization, industry dynamics, financial markets, and corporate leadership. Kotter (1996, p. 18) in turn argues that the most influential driver for change is the phenomenon called globalization of markets and competition. It is driven by technological change, international economic integration, maturation of markets in developed countries and fall of communist and socialist regimes. Sanchez & Heene (2004, p. 124) have pointed out that changes in the macro environment of the company, such as demographic, macroeconomic, sociocultural, political-legal and technological changes are the basis for making strategic changes. They see that three first elements are beyond company's ability to influence directly, but the two last ones, political-legal and technological changes, a company can somehow try to have an effect on. Levy's (1986, pp. 11–13) categorization is four-fold, and is concentrated on the change-driving conditions, not discussing about the true reasons behind the strategic change. These categories are:

1. Permitting conditions, which are aspects of the internal organizational situation that permit transformation to occur
2. Enabling conditions, which are external conditions that increase the likelihood for transformation to occur
3. Precipitating conditions
4. Triggering events

Levy (1986) sees that the second-order change means for example taking a new direction for an organization and is multilevel by its nature, affecting both individuals, groups, and the whole organization. Affecting the whole organization is actually the situation in this study, also.

When taking the point of view of a for-profit company, this thesis takes the point of view that the competition is ultimately the main root cause for and driver of making

strategic changes. It is now argued that without competition business organizations, or companies, would not have to change and would actually continue doing business as they have done earlier. However, organizations want to secure their long-term survival in the business and because of competition and rival companies, they need to counteract this and adjust or even change their strategic course. In this sense it is the external competitive environment and changes in it that cause pressures to change within the organizations and thus are regarded as the main drivers for changes.

3.1.3. Types of change

Since a single company's strategic choices and changes in strategies are somewhat contingent and case-specific, no comprehensive or exclusionary classification can be made about the types of change. However, it is important to notice differences in the types of changes in order to make justified conclusions for example about the needed procedures and actions during the change process.

Struckman and Yammarino (2003, pp. 12–17) have identified several different typologies and classifications for organizational change. They have reviewed the literature and based on earlier typologies by several authors built up their own model to depict the types of changes. The categorization of change events by Struckman and Yammarino is shown in the figure 3.3 below.

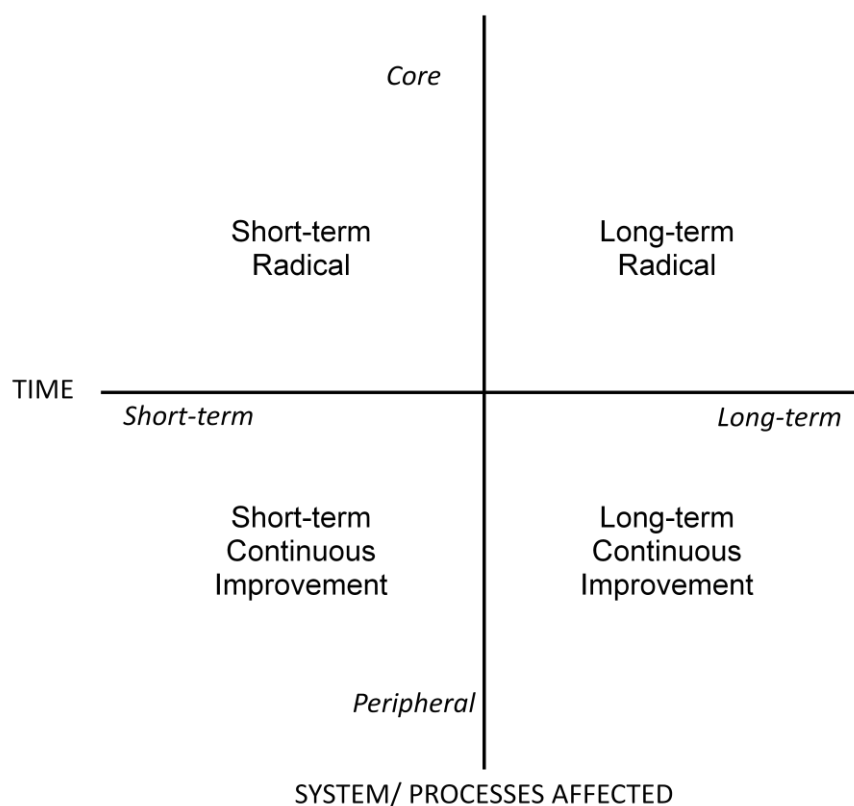


Figure 3.3. Change event categorization (Struckman & Yammarino 2003, p. 15).

The vertical axis describes how much the change is affecting the organization itself. On the one hand, if the change is likely to have a big effect on the organization it can be called as core. On the other hand, peripheral change is a smaller one. Struckman and Yammarino (2003, pp. 14–15) have identified words such as transformative, punctuated and second-order changes from the literature, which they see are core changes. Vice versa incremental, continuous and first-order changes mean the same thing as peripheral changes. The determining and distinguishing factor however is how much the change will affect the organization. Time-scale, which is located on the horizontal axis of the typology by Struckman and Yammarino, describes how long the response to the change event will take. By combining these two dimensions altogether four types of changes can be identified.

Alas (2007, pp. 258–259) has identified three different factors that have an effect on the type of change. These factors are scope, initiator and duration of change. First of all, the scope of the change may be either to change something within the given system or to change the system itself. An important difference between these types of changes is that Alas sees that the former one is a systematic step-by-step process and it cannot produce a kind of a transformation that is needed to a strategic change. The latter one, in turn, is more oriented to bigger changes and, according to Alas, requires also innovation in order to lead the change. The duration of change Alas has adopted straight from Struckman & Yammarino, meaning the difference between short-term and long-term change. Initiator in turn roughly describes whether the change is initiated by employees or management. To simplify the ideology of both Struckman and Yammarino, and Alas, the change can be either big or small, and short or long, depending on the effects on the organization, and it can be initiated by an employee or the management of an organization.

As it was pointed out in the chapter 3.1.1, there may be big differences between the intended and realized strategy. Terms unrealized, deliberate and emergent strategies were presented. Also Johnson et al. (2008, pp. 400–401) have acknowledged the differences between these concepts. They however see that strategies change incrementally and call this process as strategic drift. Figure 3.4 represents the strategic drift proposed by Johnson et al.

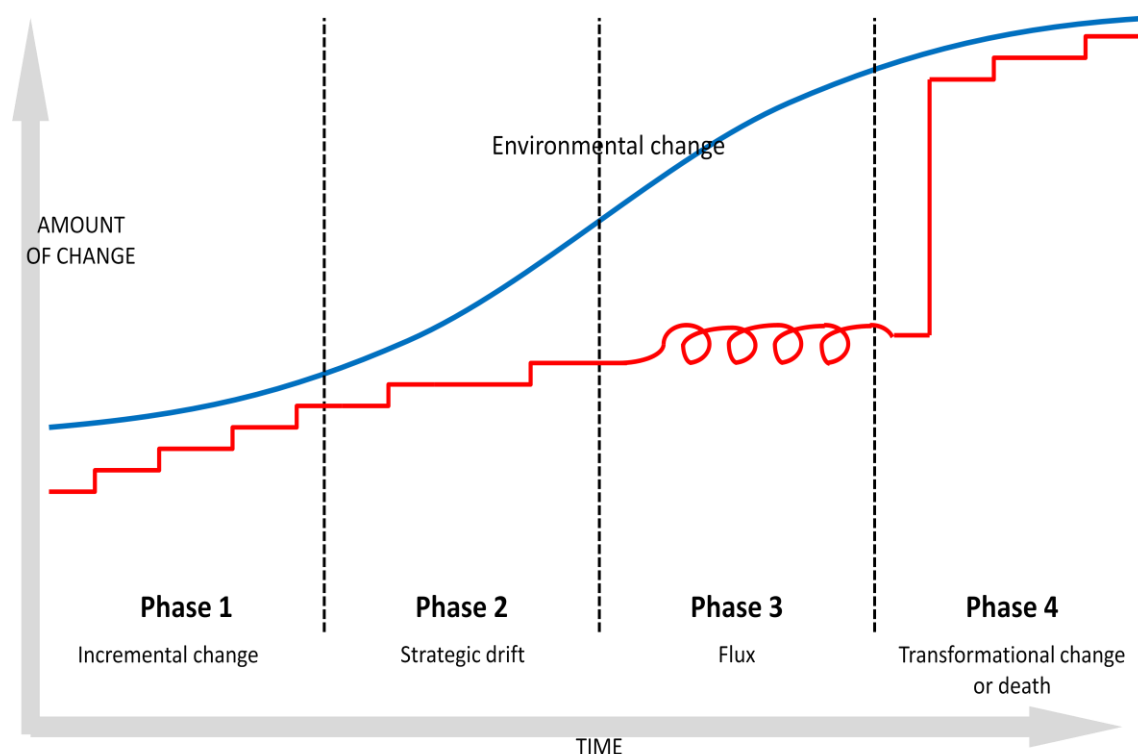


Figure 3.4. *Strategic drift* (Johnson et al. 2008, p. 180).

As the figure 3.4 shows, industries and competitive environment change continuously and over time an organization must keep up with the pace. What is especially interesting in this case is to identify which phase the case companies are in. This determines whether the change that is needed, should be radical one or is incremental change sufficient in order to keep up with the pace of industry evolution. It can be argued that the most crucial phase is the fourth phase. Johnson et al. (2008, p. 180) set up a very critical question about how long and what extent can managers of an organization rely on incremental change. To answer this question it is clear that scanning the competitive environment and having a clear picture about what is going on in the industry is very important.

Johnson et al. (2008, pp. 184; 196) have discussed also the effects of organization's history and culture on the organization's strategy. Based on this assumption it can be argued that also the earlier changes and for example the practices used within the organization also have their own effect on what is the type of the change the organization is facing.

3.1.4. Managing strategic change

Change and change management are topics that have gained a lot of attention in the literature. Especially when the discussion is on the strategic change, there are numerous guides and pragmatic step-by-step process descriptions represented. Most of these guidelines and prescriptions for managing change examine the subject from the point of

view that the change program has not produced the wanted outcome and thus the authors have been second-guessing and built these prescriptions afterwards. The change programs that have failed have obviously been steering the literature.

One model which is cited a lot is Kotter's (1996) eight-stage model for the process of creating major change. He has identified a lot of errors that has been done in the organizational change efforts in the past and based on these errors he represents counteractions to avoid these errors. Kotter's model is presented in the figure 3.5.

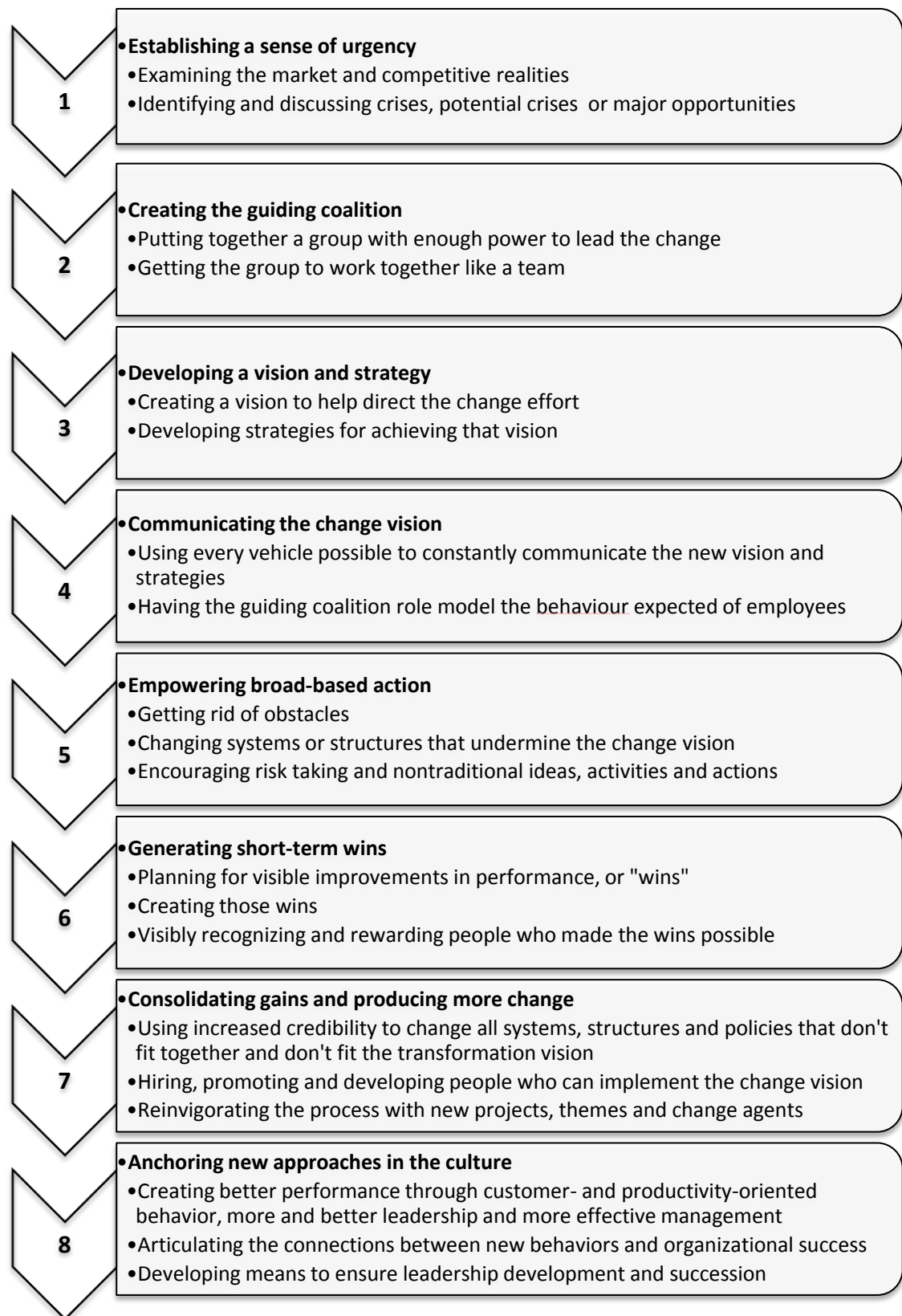


Figure 3.5. The eight-stage process of creating major change (Kotter 1996, p. 21).

According to Kotter, first four steps or phases are to “defrost a hardened status quo”, steps five to seven to actually deliver the change and introduce the new ways to work, and the meaning of step eight is to institutionalize the new ways to work (Kotter 1996, p. 22).

Also Beer et al. (1990, pp. 161-164) have proposed their own step-by-step model how to achieve effective change in an organization. Although these steps are distinctive, they still overlap. Beer et al. argue that these steps develop a self-reinforcing cycle of commitment, coordination and competence, which are the essential requirements for an organizational revitalization. The six steps are:

1. Mobilize commitment to change through joint diagnosis of business problems
2. Develop a shared vision of how to organize and manage for competitiveness
3. Foster consensus for the new vision, competence to enact it, and cohesion to move along
4. Spread revitalization to all departments without pushing it from the top
5. Institutionalize revitalization through formal policies, systems, and structures
6. Monitor and adjust strategies in response to problems in the revitalization process

As it is clear, the similarities between models represented above are considerable. However, there is no consensus about a valid framework for organizational change management (By 2005). Whelan-Berry and Somerville (2010) have researched and summarized previous literature about organizational change process and have identified that there are five steps more or less common to all prescriptions, guidelines, and change process descriptions. These generic steps are:

1. Establishing a clear compelling vision
2. Moving the change to the group and individual level
3. Individual employee adaptation of change
4. Sustaining the momentum of change implementation
5. Institutionalizing the change

Since the scope of this thesis is not to build a framework or step-by-step process description for organizational change, adopting and keeping in mind these five steps is enough. In general, it seems that an organizational change to happen, having a clear vision, adaptive individuals, and keeping the pace in change implementation resulting in institutionalization of the desired change is needed.

Besides offering pragmatic and step-by-step processes to execute and facilitate changes within an organization, literature is full of arguments about capabilities needed both from an organization and its managers. Franken et al. (2009, p. 51) for example have identified that the practice and literature about achieving successful strategy execution is clustered around three capabilities, namely:

- Aligning the strategic change program portfolio
- Executing and implementing the change programs
- Change capability improvement

Especially on the managerial side, one capability that is claimed in the literature is to have a manager who also has leadership. That is, the distinction between managing change and leading change should be done. Adopting first of all the assumption that “things” are managed and “people” are leaded, and that an organizational change is much related to the employees and their adaptation of new things, change leadership is not only a capability but almost a requirement for an organization willing to change strategic course. The importance of change leadership is suggested by several authors (e.g. Gill 2003, Rubin et al. 2005) and the impact of a change leader to successful change acceptance and result is supported (see e.g. Kavanagh & Ashkanasy 2006, Lyons et al. 2009).

As a conclusion, implementing a strategic change affecting the whole organization needs not only effective management and step-by-step processes, but also leadership and thus taking into account the individuals, i.e. members of the organization. Once the individuals’ attitudes and behavior are affected, a change may take place more effectively. Having a clear reason to change strategy and acknowledging the type and scope of the forthcoming change helps change managers, leaders and agents in the transformation process.

3.2. Organizational readiness for change

3.2.1. The concept of readiness for change

The concept of readiness for change has gained more and more attention since 1993, when Armenakis et al. (1993, p. 681) distinguished it from the concept of resistance to change. They argue that readiness for change greatly predefines the individual’s behaviors of resistance to, or support for, a change effort. They also see that there are three different individual’s characteristics that can be used to describe one’s readiness for change. These factors are organizational members’ beliefs, attitudes and intentions. From the very beginning readiness for change has, hence, been linked with individual and his or her subjective characteristics.

Nowadays, much of the literature about readiness for change deals with not only individuals but also the organization, and readiness for change is discussed as an organizational-level phenomenon. Table 3.1 below summarizes this literature and reveals that in the context of a manufacturing company moving towards service business the organizational readiness for change has not received attention.

Table 3.1. *Key findings, main contributions, and gaps and delimitations of earlier research on readiness for change.*

Author	Year	Key findings/Main contribution	Gaps/Delimitations
Armenakis et al.	1993	Readiness is described in terms of organizational members' beliefs, attitudes and intentions; primary mechanism for creating readiness is the change message.	Organizational readiness for change is linked only to the individuals.
Armenakis & Harris	2002	Discrepancy, appropriateness, efficacy, principal support, and personal valence are the key elements of change message, which in turn is a key mean to create readiness for a major reorganization in an organization. The change message can be conveyed with three different strategies, namely active participation, persuasive communication, and management of information.	Organizational readiness for change is linked only to the individuals and the framework is tested with only one case business unit.
Eby et al.	2000	Individual attitudes and preferences, work group and job attitudes, and contextual variables are the three classes of factors that are important in understanding perceived readiness for change.	Research deals with implementation of team-based selling within two divisions of a single company, and the change content therefore is already somewhat known.
Holt et al.	2007	Readiness for change is a multidimensional construct influenced by beliefs among employees. Change-specific efficacy, appropriateness, management support and personal valence are the key dimensions. Since the individuals ultimately initiate and carry out the change activities, scope is on the individual level.	Research is conducted in two organizations, both undergoing structural changes: The change content and intent is known.
Jansen	2000	Readiness for change considers an organization's capacity for making change and the extent to which individuals perceive the change as needed. Readiness for change is an individual-level construct but requires the consideration of the organizational context also.	A short and generic approach to the concept of readiness for change as one change dynamic out of three (resistance to change and momentum being two others).
Jones et al.	2005	Readiness for change has a mediating role in the relationship between employees' perceptions of a human relations culture orientation and a specific change implementation.	The specific change in the research is implementing a new computing system. The concept of readiness for change is seen as an individual-level phenomenon and operationalization of the concept is limited.

Lehman et al.	2002	Motivation and personality attributes of individuals, institutional resources, and organizational climate are the elements of organizational readiness for change.	Context is on drug treatment organizations and the scope on technology transfer, not on industrial companies or strategic change.
Madsen et al.	2006	Discusses how individual's "margin in life" correlates with one's readiness for change, age, educational level, and length of time with company.	Research is limited on an individual level of readiness for change, and does not take into account the organizational level.
Smith	2005	People are the real source of, and vehicle for, change and thus creating readiness for change at both the individual employee and the whole organization level is important. Creating a sense of need and urgency, communicating the change message, ensuring participation and involvement, and providing anchoring points are the main steps in it.	Does not discuss e.g. the types of possible change any further. Universal & generic approach to the readiness for change.
Susanto	2008	Organizational readiness for change includes seven aspects: Perception towards change efforts, vision for change, mutual trust and respect, change initiative, management support, acceptance, and managing change.	Straightforward research on assessing the readiness of an organization. A single-case study with no generalizability.
Walinga	2008	Proposes a model how the individuals confront challenges to the change goals. Appraisal, focus and perceived control are the critical variables in this.	Concentrates on the individual change readiness, and the context is on a sports team.
Walker et al.	2007	Change content, context, process and individual differences are the factors influencing organizational change efforts.	Does not discuss readiness for change related to the factors that are mentioned.
Weiner et al.	2008	Organizational readiness for change has been defined in a variety of ways. In this paper it is defined as the extent to which organizational members are psychologically and behaviorally prepared to implement organizational change. Contrast between discussion of readiness for change in general and related to specific types of organizational change.	Emphasizes individuals and their receptivity.

The most salient finding from the previous table 3.1 is that it is regarded as a multi-dimensional construct, including several elements or characteristics. Some researchers have pointed out that the individual and his or her attitude matters, whereas some researchers have argued that organizational and contextual issues matter. It is therefore suggested that individual and organizational readiness for change are linked to each other. Another important conclusion from the table 3.1 is that although the concept of

readiness for change has received a good deal of attention in the literature, there is no precise and clear definition for it. Also, the differences between individual and organizational readiness for change are confusing and it is not always clear, which one is discussed. For example Desplaces (2005, p. 27) has presented a comprehensive, theoretical model of individual readiness for change, which takes into account dynamics at both the individual and organizational level of analysis. In practice, he sees that individual readiness for change includes also organizational-level aspects.

Similar with the concept of organizational readiness for change is the concept of organizational capacity for change; a term used by for example Judge and Douglas (2009, p. 635). They see that it is the combination of managerial and organizational capabilities that allows an enterprise to adapt to the changing situations in its competitive environment. Jaros (2010) has used the term commitment to organizational change to mean the key psychological mechanism, which links organizational efforts to implement planned change and the behaviors of employees. Brunton and Matheny (2009) in turn have researched acceptance of change, and their interest has been on a public health organization. To make it even more incoherent, e.g. Pettigrew and Whipp (1991), Pettigrew et al. (2001), Butler (2003), and Frahm and Brown (2007) use the concept of receptivity to describe more or less the same phenomenon, the readiness for change. Also this suggests that the concept of organizational readiness for change is a multifaceted concept.

Weiner et al. (2008 pp. 415–416) have made a comprehensive literature review on the concept of organizational readiness for change in health services research and other fields, e.g. business, education, and government. They have observed that there are two broader approaches in how the readiness for change has been described. First of all there are authors who view the readiness for change from psychological point of view and “emphasize organizational members’ attitudes, beliefs and intentions”. The second category is the authors who view the behavioral change to occur in five different stages, which are precontemplation, contemplation, preparation, action, and maintenance, where readiness for change is seen as the preparation stage. It is defined as “intending to take action in the immediate future”. Either way, readiness for change literature suggests that the psychological and behavioral characteristics of individuals are the core of the organizational readiness for change. Another divergence that Weiner et al. (2008, pp. 415–416) have noticed is that organizational readiness for change can be seen either as a general state of things that exist in an organization or as an organization’s preparedness for a specific change or type of change. In the context of this thesis, the emphasis is on the preparedness for a specific, strategic change, and therefore the change intent and target should be taken into account when defining organizational readiness for change.

Walker et al. (2007, pp. 762–763) and Holt et al. (2007, p. 232) argue that the content, process, context, and individual characteristics are the factors influencing organizational

change efforts. They see that the process issues refer to the pragmatic actions taken by change agents during the change process, from the introduction to the implementation of it. This thesis however simplifies this ideology a little, since the scope is on the preliminary phase of the change process itself. The process issues are thus situated partly under content issues and partly under context issues. Therefore, change content issues, change context issues, and individual differences are seen as the main contributors to the organizational readiness for change. Hence for the purpose of this thesis readiness for change, particularly organizational readiness for change is defined as follows:

“The organization’s psychological, behavioral, structural and target-oriented preparedness to adopt and implement new ways of doing day-to-day business.”

3.2.2. Elements of organizational readiness for change

In order to understand the concept of organizational readiness for change, discussion about the elements of it is needed. The current literature about readiness for change, both on the organizational and individual level, is full of these kinds of elements and factors. For example Struckman and Yammarino (2003, p. 19) have identified altogether 28 different readiness factors from the organizational literature. For the purpose of their research, they have chosen the variables that were common across at least two of the six cases they did literature review on, namely communication, culture, information and technology, leadership, management, measurements, organizational structure, performance feedback, roles and responsibilities, and skills.

For the purpose of this paper, the table 3.2 summarizes the relevant literature especially from the field of organizational readiness for change and depicts the abundance of the elements of organizational readiness for change. It should be noted that the literature about individual readiness for change is excluded from the table and the scope is on the organizational level.

Table 3.2. *Elements of organizational readiness for change in previous literature about organizational readiness for change.*

	Individual characteristics & attributes	Organizational learning/past changes	Organization culture/climate	Communication & information sharing	Employees' possibility to participate	Trust in peers	Team-work	Change message	Flexibility of policies and procedures	Logistics and systems support	Change vision appropriateness	Top management support	The context of change (discrepancy)	Resources	Providing benefits and feedback
Alas 2007	✓	✓	✓												
Armenakis et al. 1993	✓			✓				✓							
Armenakis & Harris 2002	✓			✓				✓							
Cunningham et al. 2002	✓				✓										
Eby et al. 2000			✓		✓	✓	✓		✓	✓					
Holt et al. 2007	✓										✓	✓	✓		✓
Jones et al. 2005	✓		✓												
Lehman et al. 2002	✓	✓	✓	✓	✓	✓					✓	✓		✓	
Smith 2005	✓			✓	✓										✓
Struckman & Yammarino 2003				✓								✓			✓
Susanto 2008	✓	✓			✓	✓					✓	✓			✓
Walker et al. 2007	✓	✓		✓	✓										

The most problematic issue in identifying the conceptual elements of organizational readiness for change is that the authors use their own concepts and definitions for same issues. Thus some simplifications are made on the categorization of some elements and it is possible that the precise term is not represented in the previous table.

The key finding from the previous organizational readiness for change literature based on the table 3.2 is that at the same time when the exact elements of organizational readiness for change are discussed almost every author links individual characteristics and attributes to it. Besides the organizational readiness for change literature, there is an own branch of literature for individual readiness for change, which deals with the issue. Thus the individual readiness for change is seen to be a part of organizational readiness for change. Also, as it was already defined, organizational readiness for change includes psychological and behavioral dimensions, which are directly linked to the individuals within the organization.

In line with this, Smith (2005, p. 408) sees that in order to achieve successful organizational change, it is particularly the employees' readiness for change that must be taken into account. He argues that managing the change is truly about managing people and that sometimes people can actually be the biggest obstacles to achieve change. Some authors (see e.g. van Dijk & van Dick 2009) tend to see that it is the change resistance of individuals which actually is the problem and challenging in organizational changes. However, as it was already mentioned, readiness for change should be distinguished from the concept of resistance to change (Armenakis et al. 1993, p. 681). Despite this, Hicks and McCracken (2011, p. 82) still link the readiness for change for an individual to the relative cooperation or resistance one can expect from an individual in meeting a behavioral change goal. Therefore, it can be argued that the current literature is not unanimous and to some extent still holds a point of view that resistance could be a part of readiness. This thesis follows the reasoning of Armenakis et al. (1993), and regards readiness for change as a completely different construct, separated from the concept of resistance to change.

Armenakis et al. (1993) mention that readiness for change is related to the questions whether the change is needed or not and if the members of an organization see that the organization is capable of making those changes. They have used the terms discrepancy and efficacy to describe these issues. However, they have not taken into account the individual's willingness to actually invest in and make those changes that are proposed, as Hicks and McCracken (2011, p. 82) have done. Also, what is worth noticing, neither Armenakis et al. (1993) nor Hicks and McCracken (2011) explicitly mention that they would discuss either individual or organizational readiness for change, although the focus is clearly on the individual.

Madsen et al. (2006, pp. 93; 106) in turn argue that the individual's margin in life (MIL) determines, whether or not he or she is willing to invest the necessary effort to implement the change successfully. Theoretically, margin in life according to them is based on the balance of amount of energy which is needed to live and learn, and the amount of energy that is really available. They have also proposed that the older an employee is, the higher margin in life is and thus also the readiness for change would be better. Based on this, it can be argued that the level of margin in life and therefore also

individual readiness for change can be different for different people at the same time within the same organization, and that there may be several subjective characters that have an effect on one's readiness for change.

This study adopts the idea that individual readiness for change is constituted of individuals' beliefs, attitudes, and intentions, but regards individual readiness for change to be only one part or element of organizational readiness for change. In practice, as it was defined previously, organizational readiness for change includes also structural and target-oriented dimensions and elements. Also, the ideology of Holt et al. (2007, p. 232) about individuals' beliefs is adopted, and beliefs are seen to include for example whether individuals are capable of implementing a proposed change, the proposed change is appropriate for the organization, the leaders are committed to the proposed change, and whether the proposed change is beneficial to organizational members.

Besides the individual characteristics and readiness for change, table 3.2 shows that there are different elements already identified in the literature that are related to the structural, i.e. contextual, receptivity of an organization. For example communication and information sharing, employees' possibility to participate, trust in peers, team-work, flexibility of policies and procedures, logistics and systems support, and resources are seen as related to the structural receptivity and flexibility of an organization. Also, top management support is bundled with these elements, since the top management has the ability for example to provide needed resources and communication tools, and to make it possible for the employees to participate for example the change planning process.

The model of Desplaces (2005, p. 27) predicts that support from the environment, one's self-efficacy regarding the required change and the readiness for change of other members of the organization constitute individual's readiness for change. Since the individual readiness for change and other individual-related issues were already discussed as their own and separated entity, support from the environment and the readiness of colleagues are drawn apart from the model of Desplaces and now linked with structural elements of organizational readiness for change.

Every member of an organization should have an opportunity to make the change initiative, but in the end it is the organization leaders and managers that make the ultimate decision on the change initiative (Susanto 2008, p. 53). Also vision for change, management support and managing change are aspects that usually in a business company only the management side of the organization can affect and average employees cannot. The third aspect in the previous list, mutual trust and respect, Susanto connects with team-work and that there should be mutual trust and respect not only between employees but only between employees and management.

Management support, managing the change, ensuring the participation and involvement of employees to the change process and mutual trust and respect are issues that are related to this level on organizational readiness for change. Finally, the last key element of organizational readiness for change, appropriate intent and scope, includes factors such as creating and communicating a clear vision of change and its urgency, allowing change initiatives and providing both short- and long-term anchoring points and benefits. These are the content-specific issues of a change.

3.2.3. Creating and enhancing readiness for change

Backer (1995, p. 22.) sees that readiness for change can be both assessed and enhanced. He argues that since the readiness for change may vary due to changing external and internal factors, it is not a fixed element of individuals or systems, i.e. organizations. Thus he proposes that it is possible to enhance readiness for change. In this thesis, organizational readiness for change is not seen as a fixed element, but rather a dynamic characteristic, which can be enhanced and thus varies by time.

Backer has actually adopted Armenakis et al.'s (1993) ideas about creating readiness for organizational change and modified it a little. Backer's model for enhancing change readiness is represented in the figure 3.7.

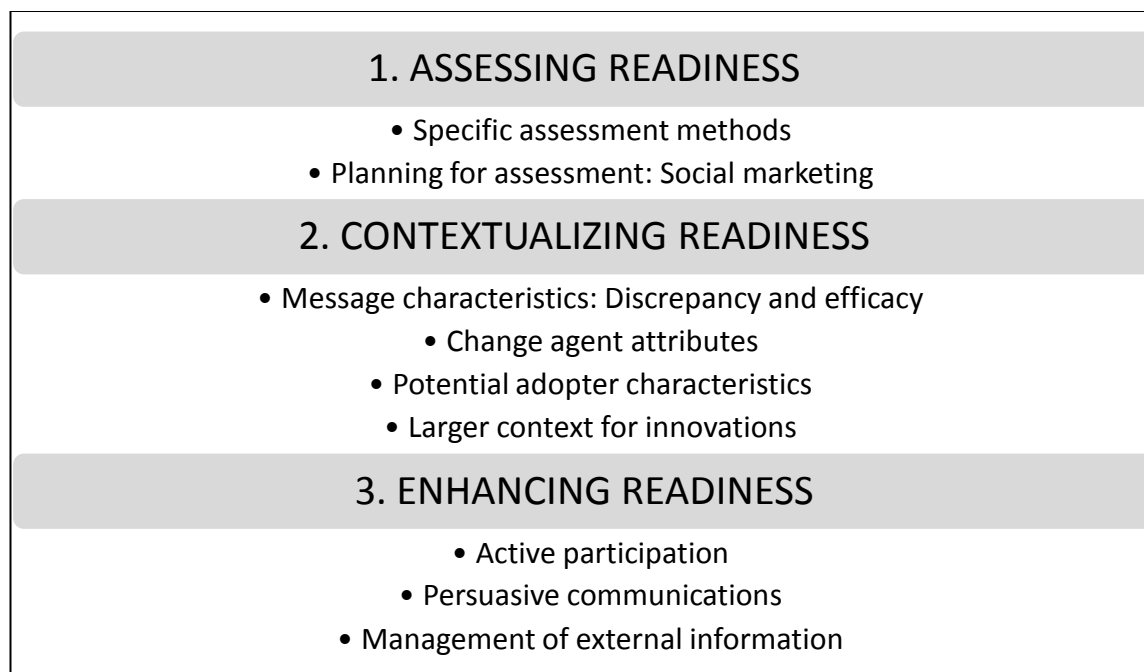


Figure 3.7. Model for enhancing change readiness (Backer 1995, p. 28).

The literature is full of different kinds of readiness assessment methods, tools, and instruments. Much of the tools are used in public health organizations (see e.g. Backer 1995, pp. 28–31; Carey et al. 2006; Cunningham et al. 2002), although some suggestions to assess readiness for change also in manufacturing companies

(Hanpachern et al. 2006) can be identified. It is good to notice that the literature provides a good amount of different kinds of assessment methods, indicating that the assessment can be done and is seen as an important part of enhancing organizational readiness for change. However, these assessment methods and tools are out of the scope of this thesis and are not discussed further.

When contextualizing readiness, Backer suggests that change message and its creation is the starting point. The change message should include, as seen in the figure 3.7, both discrepancy and efficacy points of view and thus affect on the individual's readiness for change (Backer 1995, p. 28.) Much of this thinking is based on Armenakis et al.'s (1993, p. 681) ideas. They see that the starting point to create readiness for change among the organization and its members is to have a realistic message of change. They discuss that the message should cover first of all the need for change but also take into account the individual and collective efficacy. With need for change Armenakis et al. mean the discrepancy between the current and desired state of the company or organization.

It needs to be communicated to the employees that there is a need to change and that the forthcoming change is possible to implement. If no such message is created and further on it is not communicated to the employees of the organization, the change itself becomes hard to implement. People tend to stay on their comfort zones and employees continue their everyday routines and tasks unless it can be justified for them that the old model or ways of actions will not be sufficient in the future.

Smith (2005, p. 408) sees that it is important to create readiness for change before the attempts to change organization somehow. By doing this, Smith sees that resistance to change can be coped with more easily or even be avoided. To create readiness for change he proposes a three-step process:

- Creating a sense of need and urgency for change
- Communicating the change message and ensuring participation and involvement in the change process
- Providing anchoring points and a base for achievement of change

Compared to the individual's readiness for change, in this case also creating a sense of urgency for change is mentioned, not just the need for change. The second point of Smith's (2005, pp. 410–411) list is related to the change message and employee involvement, which are discussed further later on in the next sub-chapter. The third point according to Smith means that people must for example be able to see their role in the new ways of doing things. Smith lists staff training and development, team building and role modeling from the top of the organization as tools to achieve these anchoring points.

In overall, organizational readiness for change can be seen as a two-fold concept. First of all it is related to the particular change in question. As for example also Backer (1995) sees it, the readiness should be contextualized and in that sense readiness for change is a phenomenon that is context- and therefore also time-related. Therefore enhancing readiness for change means in practice taking into account and improving the relevant aspects and elements related to the planned change. Secondly, organizational readiness for change can be seen as an organizational characteristic, which can evolve over time and does not have to be change- or context specific. Especially when the change is not planned so precisely and the organization must adapt to the new situation suddenly. This could be the case when the business strategy emerges and results the realized strategy.

Within this thesis it is seen that the organizational readiness for change can be enhanced. Especially, the change in this context is planned and therefore preparing the organization to it and taking the organizational readiness for change into account assists in change process. Now, as the prerequisites of successful change implementation are discussed, we can move to review the change in question.

3.3. Transformation towards services

3.3.1. Definition of service and service business

The definitions of a service and service business are widely-researched and discussed topics. Obviously there are differences between services offered to the end-customers in business-to-consumer markets and industrial customers in business-to-business markets. When considering the context of this thesis - industrial markets and Finnish manufacturing companies – these definitions need a bit more discussion.

Laine (2009, p. 40) has divided the concept of service into three levels according to the literature about the topic of services and service business. On the one hand services can be regarded as a phenomenon, described with certain features that differentiate services from products. These features are called IHIP and are derived from words intangibility, heterogeneity, inseparability of production and consumption, and perishability (Zeithaml et al. 1985, p. 33) On the other hand, services can be seen as solutions to customers' problems and therefore services and products are in the same level of interest. The third level Laine has identified from the literature is to think services as a business. (Laine 2009, pp. 32–40.)

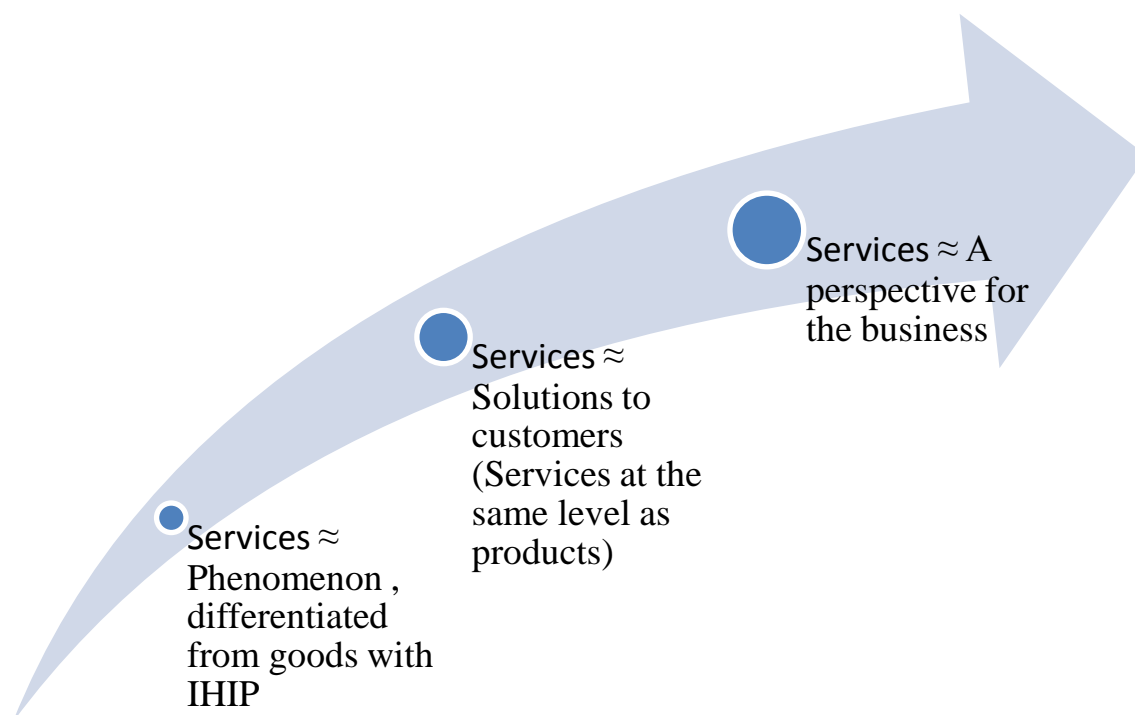


Figure 3.7. *Different service interpretations in the literature (adapted from Laine 2009, p. 40).*

Also Grönroos (2008, p. 300) has pointed out these three levels or aspects for the concept of service. The first stage according to him is to see service as an activity, which is ideologically pretty much similar to the Laine's classification. The second point of Grönroos is to think service as a perspective on the customer's value creation, which takes the concept of value into the discussion and thus differs from Laine's classification, also. The third stage according to Grönroos is to think service as perspective on the provider's activities and business logic and hence the levels of the classifications are fundamentally same. In this sense, the literature seems to be pretty unanimous that there are different levels of services and service business.

Much of the differences between these interpretations in the literature may be explained with the context services are discussed in. It can be argued that services mean different things in the context of consumer markets than in the context of industrial markets. Furthermore, when taken into account only industrial markets, or business-to-business markets, most likely there are differences what does a service or service business mean for different companies. Companies that sell for example complex systems or machines can regard maintenance as a service. On the other end of the continuum may be for example companies that sell consultancy services and do not offer anything tangible.

Since the product is an essential part of the case companies and the roots are in manufacturing, it is clear that service business for these companies cannot mean a perspective for a business and business logic in general. Also, rather than comparing

services to a tangible product, the services can be seen as add-ons to the core product and thus services add value to the basic offering. For example for the purpose of their paper, Baines et al. (2009a, p. 554) have defined services as “an economic activity that does not result in ownership of a tangible asset”. Based on these aspects, for the purpose of this thesis, a service is defined as follows:

“An intangible, economic activity that augments the core product and thus creates more value to the customer and solves a problem in a customer’s own process”

This definition is located somewhere near the second level of both Laine’s and Grönroos’s classification and is in line with Mathieu’s (2001a) idea that the product services should not just support the product but the client and its operations instead. Marceau and Martinez (2002, p. 9) see that manufacturing companies can bundle the service with the product either during the manufacturing process, or, at or after the point of sale to the user. “Pre-sale” product-services include for example engineering, design and software, as the “at or after sale” product-services include training, maintenance and up-grades. For the purpose of this thesis this is a relevant thing to consider since the transformation towards services is in its early phase and making a quantum leap to the third level of the service classification sounds unfeasible.

3.3.2. Servitization in manufacturing companies

The term servitization of business is originally defined by Vandermerwe and Rada (1988, p. 314) as modern corporations’ intents to increase the role of services in their offerings, which can include a mix of goods, services, support, self-service, and knowledge. Baines et al. (2009a, p. 554) have researched the topic of servitization and the literature that deals with the issue. They have discussed and collected a number of definitions for the term servitization and have actually combined two bodies of research, which both have discussed a similar phenomenon but have been developed and evolved separately. On the one hand, they take into account the research body of servitization. On the other hand, they see that the research body of PSS – product-service system must be taken into the same discussion with the servitization.

The term PSS – product-service system - is a western concept which emphasizes the sale of use rather than sale of product, and thus integrates the services to the core product to make extensions in the traditional use and functionalities of the product (Baines et al. 2007, p. 1543). Based on this definition, Baines et al. (2009a, p. 555) have built their own, comprehensive definition for the term servitization:

“Servitization is the innovation of an organizations capabilities and processes to better create mutual value through a shift from selling products to selling PSS.”

This definition takes into account first of all the intra-organizational point of view, meaning that the transformation from a product manufacturer to a service provider

requires changes in the organization's capabilities and processes, and thus in its resources. The second thing that is taken into account is the customer and creating mutual value through services.

Vargo and Lusch (2004, pp. 1–2) have discussed the servitization from the marketing point of view, and argued for the role and importance of the customers and customer relationships in the value-creating process. They propose a new, service-dominant logic for marketing, which has earlier been dominated by product- and goods-dominant logic. They define services as the application of specialized competences through deeds, processes and performances for the benefit of another entity or the entity itself. They also see that this service-dominant logic means a fundamental shift in worldview. Thus, this concept can be related to the individuals' mindsets and way of thinking rather than a concept that is used to describe the operational transformation from products towards services.

Much of the literature integrating servitization, service-dominant logic, and marketing emphasizes the value customer gets from the services. Mutual value creation of supplier and customer is seen to be the means to adopt service logic in manufacturing (see e.g. Grönroos 2008, Vargo et al. 2008). Also co-creation of value within the whole network is suggested (see e.g. Nenonen & Storbacka 2010). Aligning the critical processes, resources, competencies and other practices between supplier and customer, or other parts of the network, is seen as a key to create incremental value and, thereby, to make better business (Grönroos & Helle 2010, pp. 584–585). In overall, the meaning of customers and for example sub-contractors in producing and offering services is an important aspect.

Since the focus of this thesis is not on the marketing or selling the services, value co-creation and the concept of value in general are excluded. It is good to notice however that the service business literature emphasizes the meaning of customer and the mutual value creation between the customer and focal company. From the marketing and sales points of view this is especially important, but in the context of strategic change or transformation from products towards services, more intra-organizational aspects are now emphasized. For example Chase & Erikson (1988) have argued that there are multiple organizational, operational and structural aspects that are relevant for servitized manufactures. These include more operational issues such as capacity, production facility, information systems and personnel issues.

3.3.3. Drivers of servitization to a manufacturing company

Besides the general reasons to make changes in the company strategy, the reasons and drivers to servitization are also numerous. Baines et al. (2009a, p. 551) have made some literature review about the issue and have noticed that in 35 papers out of 58 cover drivers of servitization at least to some extent. For example Neu and Brown (2008, p.

233) have identified three key factors that advocate the transition from products to services. First factor is related to the company's offering and resources. They see that either the company's product line does not meet objectives for growth or the market share may be declining, or the products company offers are approaching commodity status. Thus companies must seek new ways to do business with their resources through services.

Environmental development is the second factor Neu and Brown (2008, p. 233) have pointed out. They emphasize the role of globalization and increased competition but also mention advances in technology that justify the transition more towards services. The third aspect is based on the assumption that a significant majority of all employees work in service tasks. Leveraging these tasks and developing those to be something that customer is ready to pay for is the rationale behind the third aspect.

Also Oliva and Kallenberg (2003, p. 160) have identified three different arguments, why manufacturing companies are seeking new sources of revenue from services. First of all, the installed base of products a company already has, offers a great economic opportunity for a company. Considering the long life cycle of the products, several services can be offered and targeted to the different stages of the products' life cycles. The second reason Oliva and Kallenberg (2003, p. 160) mention is that company's customers are demanding more and more services. Finally, the third aspect is the competitive argument, which means that services can be a good source for competitive advantage.

The potential benefits of the first argument Oliva and Kallenberg (2003, p. 160) have represented are big. It can be argued that being able to sell services and different add-ons to the installed base brings more certainty and predictability to the company's business. At least company's board and executives most likely appreciate this kind of predictability in the annual sales. The last two arguments Oliva and Kallenberg (2003, p. 160) mention are very much related to the environmental development, which was Neu and Brown's (2008, p. 233) second point. In this case environment can mean almost everything in a company's business and competitive environment. This means that obviously markets and customer needs are changing, technology evolution has its own effect on the business and the whole macro environment is under constant change.

Gopalani (2010, p. 4) in turn mentions lower product sales prospects, increased margin pressures and customer demands for free service support as reasons why companies are entering the service business. Furthermore, also Brax (2005, p. 142) has listed some reasons for an industrial company to move more towards services. She sees that facilitating the sales of their goods, lengthening customer relationships, creating growth opportunities in matured markets, balancing the effects of economic cycles with different cash-flows and responding to demand are such reasons.

As a conclusion, Mathieu (2001b, pp. 455–459) has discussed generic benefits a company might gain when implementing a service strategy. The benefits are divided into three categories, which are financial, strategic and marketing benefits. Financial benefits are realized through raised revenues and reductions in the volatility of cash flow. Strategic benefits instead mean that services can be seen as good competitive factors and thus companies can achieve competitive advantage through services. The last benefit is related to the company's marketing and according to Mathieu means that the services have the potential to augment the product and thus bring more value-added to the offering and furthermore more potential to appeal the client.

It seems that much of the literature concentrates on the positive reasons and impacts of services and service business. Coyne (1989, p. 69.) has taken a bit more skeptical point of view, however. He questions for example whether or not the customers are willing to pay for the services and is the financial payoff from better service worth the investment. Although Coyne mentions that services can be a fad, in the end he states that superior service can be a competitive weapon. The limitation of Coyne's examination is that he has concentrated on business-to-consumer markets and services. The previously mentioned questions about customer willingness to pay for the service and about financial payoff are still relevant in the business-to-business markets also and therefore good to keep in mind in the context of this thesis, too.

All in all, there are again many reasons and drivers for servitization and all of them are equally justified. Whatever the reasons to move more towards services for a single company are, most likely the transition is a conscious selection. Thus the idea of strategic drift mentioned in the figure 3.4 may not be relevant with the discussion about servitization.

3.3.4. Strategic transformation towards services

Often in the literature when service business in manufacturing companies is discussed, terms such as for example systems selling and integrated solutions are mentioned (see e.g. Brax & Jonsson 2009, Davies et al. 2007, Marceau & Martinez 2002, Wise & Baumgartner 1999). Baines et al. (2009b, p. 495) actually mention product-centric servitization to mean an integrated product and service offering.

Oliva and Kallenberg (2003, pp. 161–162) see that as a manufacturing company moves towards the services they move along a continuum, where one extreme is pure products and another extreme is a pure-service provider. Although this proposition is easy to understand and illustrates the transition from product towards services pretty well, it can be argued that for a purely manufacturing-based company with a long history with the current portfolio this is not the most important thing to consider. It may never be possible for a manufacturing company to be at the pure-service extreme of the continuum and thus determining which position this company wants to take in the

continuum is not relevant. What is probably more important nowadays than to think the position in the product-service continuum, as the pressures are to move towards services anyway, is to acknowledge the different service business models and the capabilities and competencies needed in these models. Majewski and Srinivas (2003, p. 4) have actually argued the following:

“..many service managers underestimate the capability differences that exist between their current product-centric services and other service business models. As a result, they underestimate the resources necessary to execute successfully and reach the revenue goals to which they are bound.”

Whatever the offering and the bundling of products and services, the transformation towards services however requires revision of the whole business model (Kindström 2010, Gopalani 2010). The core of the business model, as Osterwalder and Pigneur (2010, pp. 18–19) sees it, is the value proposition. Other elements are:

- key activities
- key partners
- key resources
- cost structure
- customer relationships
- customer segments
- channels
- revenue streams

Revising all of these in order to provide services most likely requires a lot of work and time, and has an effect on the overall operating model of a company. Thus bringing services to a traditionally manufacturing company is not an easy task.

There are many attempts to describe different kind of service business models or to build comprehensive typologies to identify these. Oliva and Kallenberg (2003, p. 168) have classified the services to be either transaction- or relationship-based, and either product- or end-user's process-oriented services. Based on this, there are altogether four types of categories of services, which Oliva and Kallenberg call as basic installed services, maintenance services, professional services, and operational services.

Raddats and Easingwood (2010, p. 5) in turn have proposed more or less similar typology of service strategies than also Oliva and Kallenberg (2003, p. 168) have represented. There are two dimensions in Raddats and Easingwood's framework: First of all the orientation of services can be either products or customers. This means that the services may be an important part of the product offered, or services may improve or help customer's own process somehow. Another dimension is whether the orientation of services is only on the focal company's products or also third party products. Based on

these dimensions Raddats and Easingwood have identified four different service strategies:

1. Product-attached services on own products
2. Product-attached services on own and third-party products
3. Operations services on own products
4. Vendor-agnostic operations services

Since the scope of these typologies has been on industrial business-to-business markets and on manufacturing companies, products play an important role in the classifications and are an important part of the services offered. As a conclusion, the literature suggests that the transformation purely to services and neglecting the products completely may not be possible. Every company makes their own strategic moves and for example decisions about their value proposition, which in turn affects the nature of product and service offering.

Majewski and Srinivas (2003) have identified five typical service business types, based on the differences in the service value proposition, operating model and financial and metrics in each type of business. They make a more tangible separation between product-centric strategy and service-based strategies and therefore argue that the product does not have to be in the focus of the value proposition. Table 3.3 represents these five types of service businesses.

Table 3.3. *The five service businesses typically employed by product manufacturers (Majewski & Srinivas 2003, p. 4).*

	Service value proposition	Operating model	Financial & metrics
Product centric	<ul style="list-style-type: none"> •After sales support •Warranty services •Maintenance offerings 	<ul style="list-style-type: none"> •Network or depot repair •In-bound call center •Field service force •Integrated service force 	<ul style="list-style-type: none"> •Bundled with products •Yearly fixed price or variable contracts
Professional services	<ul style="list-style-type: none"> •Installation and support services •Consulting services •Other professional services 	<ul style="list-style-type: none"> •Traditional leveraged engagement model •Separate services organization •New channels to market 	<ul style="list-style-type: none"> •Fixed fee contracts •Time and materials contracts •Customer satisfaction •Engagement profit
Outsourcing	<ul style="list-style-type: none"> •Lower fixed and /or variable costs •Access to enhanced capabilities •Increased flexibility •Reduced headcount 	<ul style="list-style-type: none"> •Headcount transfer of client •Technology transfer or updating •Scale economies •Service level tracking 	<ul style="list-style-type: none"> •Multiyear, fixed contracts
Information services	<ul style="list-style-type: none"> •Information based services for: <ul style="list-style-type: none"> -Maintenance -Inventory management -Supply chain -Trading •Remote monitoring and data aggregation 	<ul style="list-style-type: none"> •Solution selling skills •Installed base of networked products •Technology platforms and integration 	<ul style="list-style-type: none"> •Tiered, value-based pricing •License fees
Financial services	<ul style="list-style-type: none"> •Financing for product purchases •May include other value-added financial services •Move assets from balance sheet to income statement 	<ul style="list-style-type: none"> •Separate financial services organizations •Financial operational processes (risk mgmt, billing, etc.) •Internal balance sheet 	<ul style="list-style-type: none"> •Recurring, fee and asset-base revenue •Tied to interest rates

It is important to notice that since the business types mentioned earlier and represented in the table 3.3 are different by their value propositions and the nature of operations, implementing a certain type of business also needs certain types of capabilities. The distinction between different business models might be too strict and it can be argued that depending on the company, its offering and markets almost any kind of business model is possible to implement, as long as company's capabilities are in line with the strategy and business model. Also, what Majewski and Srinivas (2003, p. 3) have pointed out, it is important for a company to make it internally clear whether they regard

and manage services as a standalone business or try to integrate the service business with the traditional product business.

As it is evident, the transformation towards services affects the whole operating and business model of an organization. In this transition, especially in its early phase, there are most likely several requirements and challenges organizations face and need to tackle. These aspects are discussed in the following.

3.4. Organizational readiness for change in the context of servitization

To support the analysis in the empirical part of this thesis it is convenient to discuss the requirements and challenges that an organization can face regarding the readiness for change in the context of servitization. Since the focus of this thesis is on the very early phase on the transformation process, the content of the change process remains somewhat unknown and brings its own problems. From the previous literature it is however possible to identify some requirements and challenges for organizations adopting services in their own business models.

3.4.1. Requirements

It is easy to understand that in order to adopt service-dominant logic and bring servitization to a traditional manufacturing company, improving the organizational readiness that has been discussed previously is one big requirement in general. Besides this, Johnstone et al. (2009) have concluded that stronger customer orientation, better knowledge and information management strategies, and the engagement of employees are requirements for a company willing to deliver service-enhanced products. Although their research is conducted on civil aerospace industry and is limited within one company, their results are in line with the literature with wider scope also. Developing stronger customer orientation and understanding customers' needs are widely-accepted issues in the servitization literature (see e.g. Oliva & Kallenberg 2003, Mathieu 2001a).

Åkesson and Skålen (2011) have taken a little bit more human-centered point of view when describing the requirements for an organization. They mention for example that managers should focus on developing their employees' personal skills, such as interaction and co-creation with others. Having skillful employees that are customer-oriented, engaging and empowering them, and developing employees interaction and co-creation with others – through for example team-work – is easier to say than implement. Selling services requires different kind of operating model both at the individual level and the whole organization level. Thus having right kind of personalities and psychological and behavioral receptivity within the employees are nothing more than requirements for an organization.

Verdú and Gómez-Gras (2009, p. 668–669) have suggested that flexibility in any organization nowadays is a prerequisite for the survival in facing the environmental fluctuations, as it makes the organization more responsive to change. They have defined the organizational flexibility to refer to the overall flexibility of an organization as a structure, which in turn is defined through resources, processes and managerial functions. Pasmore (1994, p. 6) in turn argues that there must be flexibility in people, technology, systems and thinking in order to make it easier to cope with organizational change. As a conclusion, flexibility is an important part of the readiness for change, also.

All in all, it is difficult to justify which are the true and ultimate requirements for an organization willing to sell services, and how those requirements differ from those that are needed to sell for example pure products. The question is what is the fundamental thing or aspect that makes the separation between pure product companies and companies selling services. Gebauer & Fleisch (2007, p. 337) have argued that besides changes in existing company structures and activities, achieving financial benefits with services certainly requires changes in the underlying behavior pattern of managers. Thus, having a certain kind of mindset for selling services in an organization is probably the starting point of the transformation.

3.4.2. Challenges

Servitization and the transformation towards services must be seen as a change process, which is not accomplished in days, weeks or probably not even in months. It needs thorough modifications not only to the product offering of the company but also to organizational elements of a company. Gebauer et al. (2010, p. 108) see that different kind of service strategies need modifications in organizational design elements, such as corporate culture, human resource management, organizational structure and service development. These are relevant aspects to take into account also in this thesis and will therefore to some extent be included in the conceptual framework used in this thesis. Challenges with corporate culture, human resource management and organizational structure are relevant for a manufacturing company's readiness for change in the transition towards services. New service development and innovation for example is excluded, being its own branch of research and literature.

The success factors that Gebauer et al. (2006, p. 379) see for achieving high service revenues are:

- Market-oriented service development and clearly defined service development process
- Service offering focusing on the value proposition to the customer
- Relationship marketing
- Service strategy

- Separate service organization
- Service culture

For the sake of simplicity new service development, service offering and relationship marketing issues are not fully covered in this thesis, although they have a lot to do with the overall transformation process of an organization. In the early phase of the transformation there are most likely enough managerial and organizational challenges with defining the service strategy, building service culture and justifying whether or not a separate service organization is needed. Achieving and enhancing organizational readiness for change related to these aspects would be a good start.

Also, a challenge that the organizations might face in the transformation from products to services is creating the service culture. In today's management literature, managing things and operations is separated from managing people, i.e. leadership. Particularly, transformational leadership (see e.g. Yukl 2002, p. 240; Sydänmaanlakka 2005, p. 42) is rather new approach to leadership. Although it has been criticized for example that it lacks conceptual clarity and the research data focuses heavily on senior-level leaders (Sydänmaanlakka 2005, p. 46), the relevance of Yukl's (2002, p. 253) argument that *"with transformational leadership, the followers feel trust, admiration, loyalty, and respect toward the leader, and they are motivated to do more than they originally expected to do"* in the context of business transformation and building service culture within the organization should be taken into account. Further on, transformational leaders are seen as change agents and good role models (Sydänmaanlakka 2005, p. 42), which are in turn seen as important players in the organizational change and readiness for change (see e.g. Armenakis et al. 1993; Tyson & Jackson 1992, p. 180).

Besides the true requirements mentioned earlier, organizations can face several challenges in their transformation process. Literature suggests that many of these challenges relate somehow to managing and leading the change process. The list here is not comprehensive, and actually it is not the target, either. The motive is rather to sum up some issues that might be challenging in the transformation process and include these in the preliminary framework that will be used in the analysis part of this thesis.

3.4.3. The preliminary conceptual framework

Based on the ideas about organization itself, previous researches about elements of organizational readiness for change, and the challenges and requirements related to services and service business, a preliminary conceptual framework to analyze organizational readiness for strategic change for the purpose of this thesis is built. This is done by combining the definition of a simple organization and three most broadly investigated dimensions of readiness for change: psychological and behavioral receptivity (dealing with individual attributes and readiness for change), structural

receptivity (dealing with the context of a change), and appropriate intent and scope (dealing with the content of a change). The framework is represented in the figure 3.8.

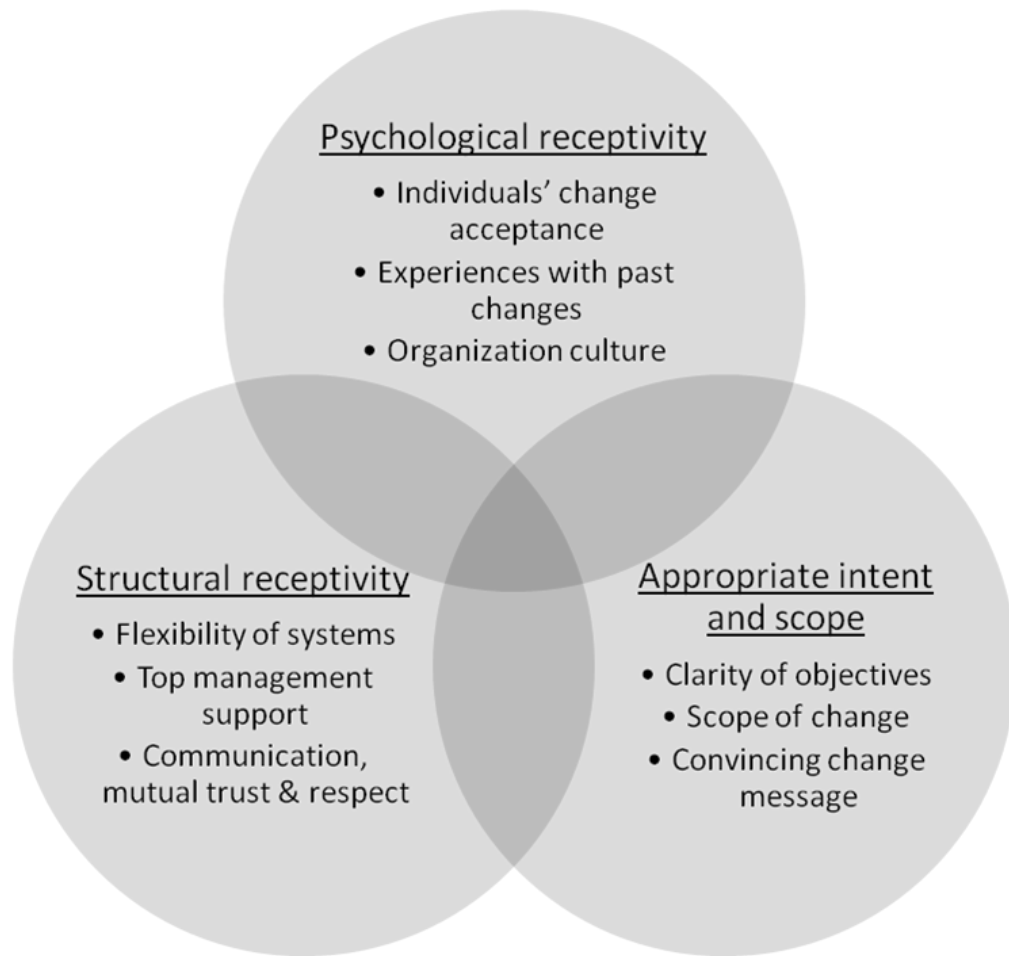


Figure 3.8. *The conceptual framework for organizational readiness for change in the context of strategic change.*

This framework is used in the empirical part of this study to analyze the current situation of the organizational readiness for change in the case companies. Also, it is acknowledged that this framework may not be all-inclusive, and thus it may be developed further.

4. RESULTS

This chapter represents the results of the empirical part of the study. The purpose is to systemically talk through the elements of the framework built and what kinds of issues emerged related to these elements in the interviews. This chapter begins with the elements of psychological receptivity, and then continues with the results of structural receptivity. After this the third upper-level element, appropriate intent and scope, is reported. Finally, there is an own sub-chapter for industry's receptivity for services in the end of this chapter, which also emerged as its own element from the interviews.

4.1. Psychological receptivity

4.1.1. Individual change acceptance and readiness for change

As it was concluded in the chapter three, individual readiness for change theoretically relates to one's subjective characteristics such as attitudes and beliefs, and one's recognition, acceptance and capability to change. Therefore assessing the individual readiness for change for every interviewee would be difficult and actually not only out of the scope of this thesis but also it would take too many resources.

Interviews are consistent with the theory and showed that the individual acceptance and readiness for change is actually related to attitudes and individual characteristics. Especially when bringing changes to the ground floor of an organization, i.e. the production departments in the case business units, attitudes of employees were seen to pose a threat on the change implementation and success. The following citations describe this threat pretty well:

"It is probably a question of attitudes: This is how we have done earlier, so why not do things this way also in the future." [#24]

"It is a characteristic, an attitude, that some people are more ready for changes. Some may have some own little principles for a while at first." [#22]

"Of course there may always be people, who are not interested (in participating change)." [#2]

Although it was acknowledged that individual acceptance and readiness for change exists and affects to the change receptivity and readiness for change of an organization, interviews showed that it is not seen as a too big problem, especially at this stage of

service business transformation. There were comments also on the individuals' positive change acceptance and possible reasons behind it.

First of all, some interviewees saw that within their own team or department there is a good change acceptance and readiness for change in the individual level. In their opinion at least their team or department is open-minded or more receptive for changes than other teams or departments within their organization.

“Well, at the moment at least within our own group, in the sales department side of the organization, we are very open-minded towards all renewals, and we want to develop things. But there are still people here who are a bit reluctant and cannot see the benefits changes bring.” [#3]

“All of us who do tendering, do it [service] all the time and it would not be anything new. But perhaps on behalf of production department and others, I do not know whether it [transformation towards services] would affect anything there.” [#10]

One interviewee also emphasized the geographical backgrounds of the individuals. The feeling was that since the workforce in their business unit is from a certain area of Finland, they would survive even from big changes. Another interviewee did not mention the geographical backgrounds of individuals, but justified the good change acceptance and readiness for change by arguing that *“we just happen to have good gang here”* [#13].

Lots of the comments and answers about individuals, their acceptance and readiness for change were based on wild guesses and subjective feelings of the interviewees about the current situation in their organizations. However, the notion came up in the interviews that the meaning of an individual and his or her readiness for change affects the whole outcome of the change process. Support for Smith's (2005) statement that managing organizational change is actually about managing the people and employees of that particular organization is indicated.

The relative importance of individual change acceptance and readiness for change in the early phase of the business transformation from products towards services is, based on the empirical data, a bit two-fold. On the one hand empirical data reveals that the individual change acceptance and readiness for change is not seen as a biggest problem and actually there are statements that individuals are somewhat ready to change. On the other hand, however, comments on how individuals prefer doing things in the same way as they have always done, tell another story.

4.1.2. Experiences with past changes

An interview question about experiences from past changes within the organization generated a good amount of discussion. As a summary, experiences with past changes in general have an effect on individuals' psychological receptivity and through that also on the whole organization's readiness for change. Past changes have included for example changes in the organization structure and supervisor-subordinate -relationships, implementing new IT-tools and on larger scale material and machine development, redundancies in workforce, and also mergers and acquisitions of companies. As one of the interviewees described:

"..if we go 10 years back in time, if for example the color of front door would have changed, it would have torn apart the rhythm of life for many employees. But now, when there have been changes little by little, the gang does not flinch too much anymore." [#22]

Informant #18 saw that the overall organizational readiness for change towards services is better at the moment than for example three years ago because of organizational changes previously. He told that production and sales have come closer to each other, and nowadays all the machines are under the same roof, which was not the situation earlier. Also experiences with re-structuring of customer service team and revising the responsibilities of individuals' in BU1 was at first seen as confusing but in the end the benefits of this change are evident. Already these changes create foundation for better individual and organizational readiness for change.

One past experience which was mentioned was implementing new IT-systems and tools. Informant #16 described that:

"Implementing new IT-system defined our organization anew...traditionally reaction to changes is always negative at first...and afterwards it is noticed that the change was smart." [#16]

Interviewee #19 in turn revealed that:

"These changes in the IT-systems have been pretty cataclysmic. And challenging, and even troublesome, for both us and customers...We lost our credibility in that." [#19]

Based on these quotations it is clear that implementing a new IT-system is not an easy task and requires change management also. If not done correctly, the whole implementation process brings out more problems than pure benefits for an organization and employees' confidence may be lost. Past experiences with these IT-system implementations are supposed to have an effect on individuals' psychological receptivity, hence.

Changes within the whole industry and experiences with those can be also seen as an affecting factor to psychological receptivity of individuals. One big issue concerning the whole industry is the recession that hit in the end of past decade, resulting in redundancies in workforce and companies concentrating on cost reductions because of lack of orders and sales.

“During the recent recession we made a lot of moves. (Nowadays) we get information about what is economically profitability much more precisely.” [#17]

“The previous recession has been a challenging and fostering experience.” [#19]

As a summary, it is seen that experiences with past changes are an important part of organizational readiness for change. Although the changes at first appear negative and individuals react with resistance, thinking them afterwards gets the people to understand that actually the changes have been positive. Therefore, boosting the change-receptivity and psychological change acceptance within individuals in the early phase of the business transformation is possible through past changes. The following quotation about past experiences puts it all in short:

“There have been so large changes lately that it (transformation towards services) would not affect too much.” [#14]

4.1.3. Organization culture

Organizational culture is described through the complex set of values, beliefs, assumptions, and symbols in which the daily business is conducted in a company (Barney 1986). Thus the assumptions the interviewees have regarding their organization culture, and how the change is greeted in overall, are relevant.

When asked about organization culture and how change is greeted, opinions were diverse. On the one hand interviewees saw that their organization is receptive and the prevailing organization culture does not impose any additional hindrances on changes. One interviewee felt this even surprising.

“After the things have settled down, we have adjusted surprisingly positively on these big negative things, and adapted ourselves on that and changed our ways of action.” [#10]

On the BU level there were comments on good atmosphere and spirit within the organization, thus enabling the organization culture receptive to changes.

“In my opinion, we have a good atmosphere here...That’s how I have experienced it.” [#16]

On the other hand, however, there were some interviewees that clearly had doubts about the receptivity of their organization's culture, as well. Production Planner's (BU1) answer to the question, how the organization culture would accept or react to the possible change, was that *"it might be challenging"*. Also for example informant #5 told that:

"Others take it well; others take it a bit more badly. There are always people who think, that we have done 30 years this way, so why change a good way of actions. I personally think that the majority is still open-minded, however." [#5]

Positive thoughts and mental images about receptive organization culture were dominant in the collected data, although long histories of some organizations aroused some doubts. The following quotation summarizes the whole organization culture discussion well:

"At least I have the picture now that we are ready to make changes. Employees wait that we could get something changed and done...But to change those basic ways of action; this factory has been here since 1974, and when we have done something for a long time, it is always challenging to change it." [#21]

In general the organization cultures were described very shortly, if at all, in the interviews. Since the individuals build up the organization and thus also the organization culture, individual readiness for change relates heavily on the receptivity of the organization culture, also.

4.2. Structural receptivity

4.2.1. Flexibility of systems

Within this research systems mean the boundaries, hierarchies and bureaucracies related to the organization structure, and the IT-systems that are used within the organization. Actually, as one of the interviewees argued, IT-systems can greatly define the whole organization structure and the responsibilities of the individuals within it.

"I do not know whether it is purely that way, and you cannot say it so black-and-white, that SAP IT-system defines what kind of an organization is. But very much it does." [#16]

The comments on IT-systems and their flexibility revealed that there are major problems related to the functioning of the current IT-systems and for example some business was neglected or even lost because the IT-systems did not support sub-contracting work enough.

“We implemented SAP five years ago, and even today we are not able to handle sub-contracting well enough...IT-systems are one big problem (in offering services).” [#31]

“Our sales assistants say that doing a sub-contracting order into the IT-system is very difficult. It can take half a day to do one order...That system should function in a bit different way, I say.” [#26]

Customer Service Team Leader from BU1 saw that the forthcoming IT-system change would help them and make things easier. At the moment there is a lot of tacit data and information, and new IT-system would probably help in this problem. Also informant #14 argued that their new SAP IT-system most likely made it easier to manage warehouse and logistics and thus will boost the service business. In general the support from IT-systems to the service business is important in the case business units, since the customers want tailored products and the purchasing orders usually contain also sub-contracting.

Besides the IT-systems, having flexible organization structure with limited hierarchy was seen to have a positive impact on the organizations readiness for change. Informant #10 saw that the current organization structure has too many levels:

“There are many kinds of (organizational) rungs and some of them go down and some up...Many kinds of ladders and they swing like rope ladders.” [#10]

Especially considering service business, there are no separate service business units within the case business units and the responsibilities about services were spread all over the organizations. Informant #2 mentioned that *“in our organization, no-one owns the whole process, and it is not even depicted”*, when discussing about new service and product development. This reveals that there is no clear vision, what kind of an organization structure would be needed and what would be the responsibilities of employees in it. Also, as Gebauer (2006) argued, having a separate service organization is one of the success factors in achieving high service revenues. The fact is, that there are no these kind of organizational units in the case BU's.

Based on the empirical data the flexibility of systems in the organization's readiness for change is very much related to the flexibility and functioning of IT-systems. Providing services to customers is dependent on the support of IT-systems, as the customers are asking for more tailored, custom-made, and just-in-time deliveries. The need for a separate service organization is questioned and the need for defining and depicting the service offering itself is acknowledged. However, besides the IT-systems, there have not been given too much weight on the flexibility of the systems part of organizational readiness for change in the empirical data.

4.2.2. Top management support

Traditional product-oriented manufacturing companies are heavily dependent on the machinery and machine capacity, since the core of their business has been on the product which is processed further. When initiating the transformation towards services, one potential path to follow is to offer more processed products and thus bundle services with the core product, and to offer more comprehensive solutions to customers in the form bigger projects. As a consequence, the availability of appropriate machines and skilled project workers becomes critical to the business. Investments on new machines and production facilities are seen as an important part of the transformation process, creating trust in the future and affecting positively on employees' minds.

“Undoubtedly, in the future more and more we customize the products customer by customer. And it just requires from us that we modify our machines and so on to the direction that we can provide those...When processing further, usually it means increasing the number of employees and improving their skills.” [#5]

The resources available at the moment within the case BU's are seen as insufficient. Both machines and workforce are claimed to be inadequate regarding the transformation towards services.

“In that case we have to invest in new machines.” [#24]

“In order to get to this kind of (service) business, we have to have separate project engineers who do this work.” [#18]

“We have to have more expertise in our sales organization.” [#27]

Also, offering services usually means that the supplier should be closer to the customer, actively looking for potential and beneficial service opportunities. However, single employee's current workload is too heavy to have extra time to familiarize oneself with the customer's every-day business, as one of the interviewees mentioned:

“If the resources allowed, you would familiarize yourself with what the customers do and with their products. At the moment you just do not do that.” [#10]

Informant #11 told that “you have to take care of the resources anyhow”, when discussing about implementing and developing new services. This means that in this situation top management support, its ability to take risks and thus allocating appropriate resources are vital, enabling the whole transformation process and its early phase.

Another point that was mentioned and is related to the top management support and the actions of top management is the coordination of development projects regarding service business. Within the BU's there were multiple different development projects

and the data shows that there is a need for tighter coordination and support from the top management for these development projects. As the informant #31 put it:

“We invent and elaborate a lot of projects, but the implementation; we just do not have time to handle those...We have all the time new development projects; a certain percentage of them are passed. And some are just on hold.” [#31]

Also the informant #2 described that *“It just requires the decision that we do it. Those are things that we do already, but we do not do it systematically.”*, when talking about building a service product portfolio and defining the processes for new service development.

Top management support as a part of organizational readiness for change in the transformation towards service business is mostly related to providing appropriate and adequate resources. Especially in this case, in the earliest phase of the transformation, top management support is in a big role. Allocating resources builds confidence in individuals and organization itself, thus affecting individuals' attitudes and beliefs about the future. Resources are mainly related to machines, production facilities, and workforce.

4.2.3. Communication, mutual trust and respect

One of the interviewees summarized well the issue of reducing challenges related to readiness for change. He claims for trust and respect from management to the employees. Besides educating and training employees, the interviewee told that:

“When you get responsibility, you usually are much more interested in those things. And of course trust relates to that.” [#5]

Also, a thing that was seen as problematic was the gap between production and sales departments. In the literature this is known as the silo effect of an organization (Twomey 2002). Even if the departments were located in the same building, under the same roof, more information sharing and communication between sales persons and production was craved. Also, besides the communication between different departments, communication between managers and subordinates, and within the same organizational unit was seen as an important part of the forthcoming change process. Besides the investments in new machines and problems with IT-systems, for example informant #20 argued that improving communication and information sharing is a challenge for an organization in the transformation process.

Communication and information sharing is a problematic issue. On the one hand, more information is demanded about the possible changes, but on the other hand usually employees would want a little more information that actually would be necessary.

Balancing between providing enough and sufficient information, and still not revealing or sharing too much, is fundamental.

“Information sharing is at hand here at the moment; it is often poor and somehow sticky.” [#12]

“There is a place for improvement; it (information) could be spread a bit faster and it could be little more detailed.” [#13]

“Of course when there will be changes, people are confused and would want a lot of information...There could be more information sharing about anything. Actually people want to know a bit more than they really should know.” [#2]

Communication between both different organizational levels and between individuals requires mutual trust and respect. Especially the top management must trust and respect the employees in big changes – also on the strategic transformation towards services. Taking the employees along already to the change planning process is seen as a positive signal and resulting also to better outcomes.

“I do not see any barriers to that (strategic change), if it’s taken forward in a way that everyone takes part and is taken along, right from the beginning.” [#19]

“...in general we have noticed that when we take the guys from the production along already to the planning to think it through, the result is always better.” [#23]

Also this requires balancing from the top management in how much to take employees’ opinions into account. Not listening or taking employees into account at all leads to implementation and receptivity problems within the organization and its members. However, the top management should still pull the strings and not listen to the employees ceaselessly, as the following quotations put it:

“Well, everybody says their own opinions, but I think it is a good policy from the top management that ‘now we do like this and your choice is to learn or not’, and you just have to deal with it. That’s the good side of it – you make it obligatory.” [#3]

“This gang that is at this plant is most likely ready to change. We’ve had that many changes already and we have learnt it. It’s a bit like in the military: You do what you are told to.” [#22]

The informant #26 thought this topic over a lot and concluded that:

“Some things must be brought to the organization in a way that ‘this is what happens now, and that’s it’ – some things require a certain kind of communication connection (between management and employees).” [26]

Communication methods that were in use in the case business units were numerous. These create mutual trust and respect in their own way and thus foster the communication about changes and what is going on in the organization. The identified communication methods are represented in the figure 4.1.



Figure 4.1. *Examples of communication methods used in the case business units.*

As it is clear on the basis of figure 4.1, there are a good number of communication methods already in use. Thus this part of the organizational readiness for change is not the most critical one for traditional product companies in their earliest phase of the business transformation towards services, although its meaning should not be understated.

4.3. Appropriate change intent and scope

4.3.1. Clarity of objectives

The objectives regarding services and service business were somewhat fragmented or even non-existent within the case BU's. The general picture about the situation is that the discussion about services and service business is not familiar to every interviewee. There are exceptions, however, and depending on the educational background of the interviewee and the current position in the organization he or she may be able to discuss and describe the opportunities related to services and service business better. There is no quantitative data to validate this hypothesis, but the qualitative interview data suggests

that some people are better in describing the future potentials, whereas some people do not even know what does services or service business mean to their organization.

Interviewees were asked about possible objective or targets related to services or service business in their company's strategy. Suggestions, ideas and future perspectives about possible services and service business included many kinds of things, such as preprocessing the product further, planning and design on behalf of the customer, different kind of logistics and packing services and providing more comprehensive solutions to the customers through longer and bigger projects. However, these conceptions do not represent the current objectives or targets related to services in overall. Although there might be some services or similar elements in the case BUs' business, the objectives and targets mentioned remain unclear regarding the strategic transformation from products towards services.

The following quotations about the objectives and targets regarding services show that either there is no clear objectives or targets, or they are very tightly related to the current products and preprocessing those. On a larger scale the objectives and targets of service business remain somewhat unclear. The need for emphasizing services in organizations' strategies is acknowledged, also.

"There (in our new strategy) was no service business mentioned actually, which is probably a little deficiency...And what was criticized in it, was that services were not on focus." [#2]

"Well at least very clearly on the company level I see that we have tried to specialize and sell more and more preprocessed products, which in turn involves more service." [#11]

"I think we aim at developing preprocessing here...Those are our own unit's targets, that we set up for the following year." [#16]

"At least this year we are going to follow the ratio between preprocessed products and all deliveries...I cannot come up with anything more." [#18]

"Well, actually related to services, there is no mention, but we do have our own targets for specific meters." [#21]

"These public strategies, they are so big things that they do not link service business for free...Then we have this target of increasing the amount of special products to a certain level from net sales." [#25]

"No, in fact there is no any other that the targets through our market share...Strong market share domestically, increasing the solutions of preprocessed products and operational excellence." [#31]

Within every case BU the situation is the same – specific and clear targets or objectives about service business are not mentioned in the interviews, although the meaning of preprocessed products is emphasized in producing services. The reason might be that there are no clear objectives or targets, i.e. the clarity is not on a desired level, or the interviewees got confused because of the words service and service business. In some cases even the intra-organizational functioning between different departments was seen as a service the interviewee's work tasks relate to.

Especially in the early phase of the business transformation the clarity of the objectives is essential, when considering the readiness for change. When the interviewees were asked to give their subjective estimation, whether their organization is ready or not to a big, strategic change and transformation, one interviewee commented it as follows:

“It depends, what the change is.” [#3]

This indicates that the content of the change process is unknown. By knowing the objectives the content of the change process would be clearer and thus affect positively on the organizational readiness for change, also. As a summary, the following quotation represents the current situation of services and service business in overall and concludes that the objectives and targets of the change and transformation are unclear:

“I think the definition of a service, and what we want, are insufficient... We do not have the picture, what the new service might be, what would be the new things, and what would the whole concept and picture be.” [#29]

4.3.2. Scope of change

As the previous sub-chapter shows, the objectives and targets of change are unclear. This leads to the problem that since the content of the change program is not clear in the early phase of the business transformation, the scope of the change is also unclear. There is however some questioning, whether the possible change and transformation would or should be radical or incremental by its scope. From the theoretical point of view, transformation towards services means changing the whole business model and thus most likely the scope of the change should be a radical one.

In the empirical data there are arguments that support both incremental change and radical change. Those supporting radical change relate more on the resources of an organization and how those would need a radical renewal in order to achieve the desired business transformation.

“We should invest in new machines... Those ‘little-by-little’ -things we already know here. They always tend to fade away, and I think it (change) should be a more radical turnaround. We should put everything in order at once.” [#24]

The arguments and comments supporting incremental change and development, instead, take the perspective of an individual and argue that individuals adopt incremental change more easily and there is less resistance to change. Also, the change is seen to be needed in the ways of action rather than on the organizational structure.

“Big changes are always difficult. And if there will be very much bigger changes, probably it would be nice to bring it little by little.” [#4]

“I think the only proper way is to go forward gradually.” [#27]

“Everything is always possible, but of course with slow steps...Everyone would like to do as they have done also earlier.” [#28]

“I do not think it requires radical change on an organization, it is rather a change in the ways of action.” [#31]

In general, the scope of the change is unknown and since there is no clear objectives or targets regarding the change or transformation towards services also the scope is unclear. Much of the comments are rough guesses with no further justifications.

“But a radical change...I see that probably it is not time for that yet.” [#3]

“It depends on how and where we start from, how radical the change is.” [#14]

“It (how ready the organization is for change) depends on what does it include.” [#27]

To sum up, the scope of the change is heavily related to the change content itself, i.e. what does the change ultimately mean for the organization and what does it include. If the clarity of the objectives and targets of the change is poor, the scope of the change is also harder to describe. However, the scope of change affects the organizational readiness for change, and incremental change is seen to be easier to implement because of the individuals' readiness for change.

4.3.3. Convincing change message

Having clear objectives and targets, and knowing the scope of the desired change, building a convincing change message should be the consequence. As it became evident previously, based on the empirical data the change content in the case BU's is more or less blurred and this is a consequence of the current phase of the change and transformation itself. Therefore, there is little empirical data regarding change message and the comments related to it discuss only remotely what should the change message be like.

One thing that the change message should include and that brings convincingness to it is to address the need for change properly. According to the interview data, there has to be a clear reason and need for change, and change should not be done just for fun. As the following comments prove it:

“When you can show the benefits (of a change), people usually tend to agree with it, or adopt new ways of actions.” [#21]

“Of course we need to educate people...And what most: Why we do something, how we do it, and how it could be done best.” [#23]

In general, one of the interviewees was confident and saw that there will be no bigger challenges in the transformation towards services, *“as far as we know what the principle we carry on with is.”* [#10] Based on this quotation the change message should be thus clear and the rules should be common to all. However, as one interviewee commented on the service business and its clarity in general:

“You approximately know what it means, but it is not too familiar, as a concept.” [#12]

All in all, the change message related to the future business transformation is missing since the content of the change is also unclear. It is however obvious that the individuals within an organization need to have a clear picture about the need for change, meaning that the change should not be done just to make a change. An important part of the change message in general is that especially in a big organization with lots of employees and departments, the change message must be allocated and modified in a sense that the content and the message receiver are matched. In creating the change message, the audience and the receivers must be taken into account:

“If the change influences the whole organization, then it of course is a collective message. But then the message must be decompressed: What does it mean to each and everyone.” [#25]

4.4. Industry’s receptivity for services

What is common to all case business units is that they operate in a very similar kind of industries and markets. The main markets of the case business units are in Finland, in the construction and engineering industries. Although this was somewhat known already before conducting the interviews and developing the conceptual framework and analysis tool, the effects of the competitive environment and industry were not taken into account at all.

As it became obvious during the interviews, this issue is very important for the case BU’s, since the customers are ultimately the factor that determines whether or not

service business is potential and profitable for the organization. Besides the intra-organizational readiness for change, also industry's readiness for change is needed in this kind of business transformation. Especially managerial-level interviewees were conscious of the industry's receptivity and were even worried about the possibilities of bringing new services to the offering.

"Truly, this industry is really conservative, although it is repeated several times and it might be a cliché. But it really is conservative." [#2]

"In overall the biggest challenge in increasing that kind of service business is that we should get some money out of it also. And that is the customer ready to pay for it." [#27]

"Renewal and bringing new services is very slow in this industry. We have launched some web-based things for example, but no-one is interested...If we compare for example to Sweden, the difference is really big." [#31]

"This industry is a bit traditional, and the product life cycle is so long...Whereas in IT industry 2 year old product is already out of date." [#29]

Pricing the services is seen as difficult because of the characteristics of the industry and customers. Price-consciousness is high and usually price is the main contributor to the ultimate decision-making.

"I cannot go and tell to the customer that 'OK, let's put 5 % more on the price there, because we have developed this and that'." [#11]

"To be honest, in this industry discussion goes very fast on the price of the material...It is quite strongly everywhere that some people still convert Euros to old Finnish marks." [#15]

"Today it is the price that usually is the determinant...Customers take the products where it is cheapest. Bigger concerns are more ready to pay extra (for services)." [#26]

"We compete in a global business, where the markets determine the price, where we should place ourselves." [#30]

Another problem, besides the pricing, is that the customers may not be willing to give away some part of their own operations to the supplier, but rather hold it back. In this case offering more comprehensive solutions becomes difficult and making services available an industry-wide radical change might be needed.

“Customers are able to manage the production process themselves. We should be able to go over a revolution: We should be able to create the confidence that customers believe that we can do it in time, also.” [#15]

“Customers want to pull their own strings in these days.” [#31]

Industry’s receptivity inevitably affects the new service launches and the whole business transformation from products to services. Earlier quotations show that the preliminary framework for analyzing organizational readiness for change is lacking the aspect of industry as a core element on affecting the readiness for business transformation overall. The relative importance of industry-level change is inevitably high. If the customers are not ready to adopt new kinds of services, there is no sense in developing new and innovative services.

5. DISCUSSION

This chapter begins with revising the framework based on the results discussed in the previous chapter. After this, the identified elements of organizational readiness for change are classified and reflected on two dimensions, namely the relative importance to the early phase of the servitization, and the current impact on organizational readiness for change. This classification further on assists in the categorization of the elements into those that should be promoted in the future, and to those that are seen as means to improve organizational readiness for change. Thus the discussion in the latter part of this chapter answers to the research questions about possible challenges and good practices.

5.1. Revised framework

Results show that the nine identified elements of organizational readiness for change included in the preliminary framework are all relevant. Thus the work of for example Armenakis et al. (1993), Eby et al. (2000) and Lehman et al. (2002) is supported. However, results suggest that the readiness for change of the industry, including the customers and business partners, is important. The service business literature has discussed the business network's importance (see e.g. Syson & Perks 2004, Cova & Salle 2008), but has not pointed out that the customers, business partners, and probably the whole industry may not be ready to adopt the new way of doing business. Thus the preliminary framework is revised and the industry's readiness for change is included in it. The revised framework is represented in the figure 5.1.

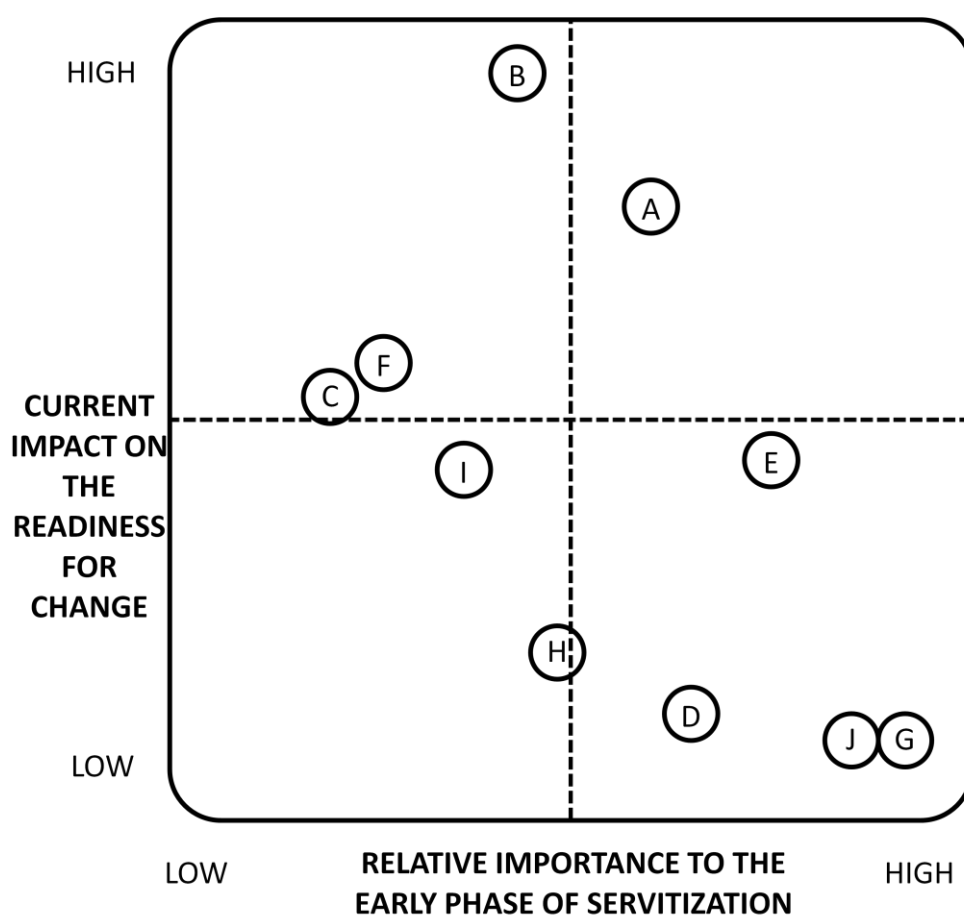


Figure 5.1. *Modified framework for organizational readiness for change in the context of business transformation from products towards services.*

The organizational readiness for change is accompanied by industry's readiness for change, which has been for the most part neglected in the previous studies. As it was mentioned in earlier chapters also, scanning the competitive environment, i.e. industry, is an important part of strategic change itself. All of the ten elements can now be included in the readiness for change and transformation process towards services. Based on the results, some of them are easier to understand and may have relatively more impact on the readiness for change than other elements. Also, the current situation in the case business units implies that some elements already are at good state and could actually be means to improve organizational readiness for change further on, whereas some elements clearly require more attention and consideration.

5.2. Classification of the elements of organizational readiness for change

In order to answer to the original research questions, the elements of organizational readiness for change are classified into those decreasing organizational readiness for change (i.e. elements that should be promoted paid attention to in the future) and those which are seen as potential means to increase it and are already at a good level. The classification is done by using two different dimensions, namely the current impact on the organizational readiness for change, and the relative importance to the early phase of the servitization. At the moment there are elements that are somewhat difficult to classify either because of their relative importance or current impact. The classification is however done based on the results of the interviews and the exact positions the elements are somewhat suggestive. The classification is represented in the figure 5.2.



- | | |
|-----------------------------------|---|
| A = INDIVIDUAL ACCEPTANCE | F = COMMUNICATION, MUTUAL TRUST & RESPECT |
| B = EXPERIENCES WITH PAST CHANGES | G = CLARITY OF OBJECTIVES |
| C = ORGANIZATION CULTURE | H = SCOPE OF THE CHANGE |
| D = FLEXIBILITY OF SYSTEMS | I = CHANGE MESSAGE |
| E = TOP MANAGEMENT SUPPORT | J = INDUSTRY READINESS FOR CHANGE |

Figure 5.2. The classification of the elements of organizational readiness for change.

The results thus confirm the findings of for example Eby et al. (2000, p. 435) that there are both general and specific factors that should be taken into account when considering an organization's readiness for change related to a major organizational change. The elements of organizational readiness for change are divided roughly into two categories, based on their position on the classification map. On the one hand, there are elements on the upper left hand side corner, and on the other hand, some elements are clearly located on the lower right hand side corner. When reviewing with specific curiosity, most of the change content (i.e. appropriate intent and scope) related elements are seen to have a low impact on the current organizational readiness for change, although their relative importance is seen as mainly high. Similarly, most of the elements of psychological receptivity, i.e. individual related aspects, and the change context, i.e. structure related aspects, are seen be at good level but however being not so important in the service business transformation.

In general, the results suggest that the psychological receptivity and structural receptivity create a base for organizational readiness for change, which is not too much dependent on the content of the change. These capabilities of psychological and structural receptivity can thus be regarded as the premise for a specific change, in this context specifically the transformation towards services.

The element of flexibility of systems is in this context very much related to the IT-systems within the case business units and because of the problems with those, the element in question is more or less extracted from the other structure-related elements.

On the one hand the classification shows that all of the elements of appropriate intent and scope, namely clarity of objectives, scope of the change, and change message, are below the middle line of the current impact. This is to say these elements should be paid attention to in the near future, when considering the business transformation towards services and organizational readiness for change within it. Also, top management support and flexibility of systems could be better based on the results. The industry's readiness for change is also bringing challenges to the business transformation and the organizational readiness for change in its earliest phase. On the other hand, individual change acceptance was not seen as a problem; actually the interviewees saw that the change would be accepted rather easy. Also the experiences with past changes, and organization culture and communication within it have currently more or less positive impacts on the organizational readiness for change and thus these are seen as elements improving organizational readiness for change. These elements, their impacts, and possible future actions related to those, are discussed next.

5.3. Factors to promote in the future

5.3.1. The clarity of the change content

In the earliest phase of the business transformation from products to services the content of the change is unknown and brings the biggest problems and challenges to managing the change and readiness for it. The conclusion is that the emphasis should be on clarifying the change content in order to improve organizational readiness for change.

The empirical data indicates that the current state of the service business is blurry and conceptions of services and potential service business vary within business units. As a conclusion, services and service business are difficult to describe. In general, interviewees were able to mention some services that their business unit produces and offers to the customers, but usually the services they mentioned were more or less tied to the tangible products their organization also offers. The current state of service business is somewhere between differentiating services from tangible products, and offering comprehensive solutions to customers. Thinking services as a perspective and a way of doing business, the third level of the concept of services (see e.g. Laine 2009, p. 40), is still out of reach at the moment.

One of the reasons behind the difficulty of describing services and service business is that the interviewees are insecure what would the transformation towards services mean for themselves and their organizations, and what they would do differently in the future. Going to an area that is not familiar and the organization lacks knowledge of most probably has a negative influence on the readiness for change, also. The results are in line with previous literature (see e.g. Smith 2005, p. 409) that there should be anchoring points and quick benefits to show for the employees during the change process. However, the benefits of the change and transformation should be proved beforehand, which is extremely difficult.

The interviewees commented on the problem that it is not clear what would the change and transformation actually be and what would be the direction the organization wants to go to. Also, it is evident that no organization-wide definition for services or service business exists. This indicates that there is clearly a need to spread the information and to create intra-organizational terminology and vocabulary regarding services and what services mean to the organization in question. Thus initiating a specific service-discussion or service-talk is recommended. Especially in the early phase of the transformation this kind of conversation would be useful in sharing the information about service business and to get basic knowledge to the members of an organization about services. When everybody speaks the same language and means same things with certain words, the objectives and targets become clearer and organizational readiness for change could be improved.

There were already several communication tools and methods in use in the case organizations. All of those assist in initiating this so-called service talk, when used efficiently. At the same time, addressing the issue of taking into account the employees' opinions and how the possible change will affect their work could be done.

Besides the service-talk, the lack of the actual content of the change has a negative influence on the readiness for change. The scope and the schedule of the change are unclear. Determining clear objectives and targets, and further on communicating those to the employees is therefore suggested.

The results indicate that the emphasis on the early phase of this kind of business transformation should be first of all on the content of the change. Setting clear objectives and targets that everyone in the organization understands, is the starting point in enhancing organizational readiness for change. After the change, or business transformation, is initiated, some other elements of readiness may become more important. As it was discussed earlier there may be big differences between intended and realized strategy. This is not a problem, though, when considering organizational readiness for change. More important is to have clear change content that the members of an organization trust and support.

5.3.2. Top management support and resource allocation

At the early phase of the business transformation top management support and resource allocation is relatively important because the service business is seen to require more and different kinds of resources. New and skilled employees and educating current workforce is needed, and also for example new machines and production lines are demanded in the future. This makes it challenging for the top management to be supportive and to offer the resources needed.

The current state of the top management support is good but since its relative importance is rather big, improvement on it would most likely boost the change itself also. Thus the current top management support may not be strictly decreasing the organizational readiness for change, but instead there is an opportunity to improve organizational readiness for change and change receptivity by top management supporting the change more.

Especially in the early phase of the business transformation, before even initiating any change, the top management should have faith in the transformation and thus have an ability to take risks. Although it is argued that the employees should be taken along already to the change planning phase to some extent, it is ultimately the top management that make the decisions in the organizations. Without top management and its support no organization functions properly.

5.3.3. IT systems

The results showed that the IT-systems currently in use received negative feedback from the interviewees, i.e. the users. Because the future perspectives of service business were very much related to the products and pre-processing those and because the focal companies or organizations did not have the machines or resources to do everything, a lot of subcontracting was indicated to be required in the future. At the moment the sub-contracting was even neglected in some cases, since the organization's own IT-systems were inflexible and it took too much time to type in the data to the IT-system about the sub-contracting work.

IT-systems should support the daily business in an organization, not hinder it. Especially in the future, when sub-contracting may become more important for manufacturing companies starting to offer services and more pre-processed components, IT-systems should be flexible and thus support transformation towards services. The current literature does not have suggestions for organizing service business and a manufacturing company's IT-systems to support the transformation towards services and is clearly an issue to consider in the future research also.

Although IT-systems were an issue particularly in the context of this research and case business units, it should be noticed that this may not be the case in general. The conclusion is, however, that the flexibility of IT-systems should be considered and taken into account in the business transformation process as a factor affecting organizational readiness for change.

5.3.4. Effect of the industry and competitive environment

As it became evident previously in the results, the readiness and receptivity of the industry the organization or company operates in, is particularly challenging. When considering especially the manufacturing industry in Finland, it is seen that the receptivity for new business models and services is poor. This can be seen to affect the organizational readiness for change, also.

Not much can be done to the industry's readiness and receptivity for change on behalf of single organization acting in a certain industry. However, again, this factor should be taken into account when planning a possible transformation towards services and further on when developing new potential services. Industry-wide changes take more time than intra-organizational changes and for example the framework by Johnson et al. (2008) discussed earlier in the literature review represents this well. In practice, the organizations should be able to point out in what phases both the industry and their organization are at the moment. Based on this the organization can predict better what kind of changes are possible and how fast the industry, especially the business partners of focal company, would be accepting and adopting new ways of doing business.

The effect of the industry came surprisingly often up in the interviews and therefore it is regarded as a relatively important issue. The biggest problems after the earliest phase of the business transformation probably relate to the industry's readiness for change, since if the customers are not adopting or buying new services, the whole business transformation would be unnecessary. Currently the impact of the industry's readiness for change is heavily negative on the organizational readiness for change, creating too negative atmosphere and affecting organization members' attitudes negatively.

5.4. Means to improve organizational readiness for change

5.4.1. Building an organization culture receptive for changes

Experiences with past changes arouse a lot of discussion and thoughts during the interviews. In general they were seen to have a positive effect on readiness for change, both on the organizational and individual level. Thanks to the experiences with past changes there were even arguments that the organization is more ready than ever at the moment. Organization culture, however, was not discussed too much, but much of the discussion about experiences with past changes argued that the organization culture is now more receptive to the changes than before. Therefore, the experiences with past changes and the organization culture's change readiness or receptivity relate to each other significantly.

Regarding the organization as a cognitive entity, being comprised of individuals capable of learning, past changes most likely affect on the individuals and they become more change receptive and show readiness for change more easily. Although implementing changes can assist in building an organization culture receptive for changes, it should however be understood that bringing changes just for the sake of a change is not logical or desired. Actually, this may even lead to problems, if the need for change is not justified and communicated to the people involved. The better outcomes and benefits past changes have incorporated, the better experiences the members of the organization also have and thus the organization culture receptive for changes can be built. However, it is not clear whether also the past changes with worse experiences can help in building right kind of organization culture.

The relative importance of the past changes and the organization culture receptive for changes is two-fold. On the one hand, based on the results, past changes have prepared the individuals to be more receptive for future changes, also. On the other hand, however, there is only little evidence on the importance of the current organization culture in the empirical data and therefore it is difficult to determine the current relative importance of the current organization culture. However, since the impact is seen very positive, building the supporting organization culture through past changes is a factor that increases the organizational readiness for change.

Especially in the early phase of a business transformation the organization culture may play an important role. The transformation from products to services requires also changing the mindsets of individuals, which in turn means a change in the organization culture, also. Providing smaller, beneficial changes with positive impacts and experiences for individuals is therefore at this stage of the transformation process.

5.4.2. Individual readiness for change

The second factor that is seen to have a positive impact on the organizational readiness for change in the early phase of the business transformation is the individual readiness for change. In some cases at least the interviewees already waited for something to happen related to the strategic change. The general conclusion is that there is willingness to make and implement changes, but there are doubts with both individual and organizational capabilities.

The role of the individual readiness for change is somewhat contradictory. On the one hand, the empirical data revealed that the interviewees were confident with at least their own organization's employees and that bringing changes to it would not be a problem. On the other hand, however, it was argued that since it is hard to show the benefits of the change beforehand, the first reaction to change is resistance, not receptivity or readiness. The attitude that individuals have about staying in their comfort zone is acknowledged and is seen to be valid in the case business units, also. Thus, the impact of individual readiness for change can be either positive or negative, depending on the case, and it is not possible to make generalizations that individual readiness for change is always positive.

At the moment the relative importance of individual readiness for change is somewhere near average. On the one hand, it is the individuals who build up the organization and ultimately need to change their mindsets in the strategic change and transformation towards services. This indicates that the importance of the individual readiness for change is vital for a change to succeed. On the other hand, however, in the early phase of the change, especially a wider, strategic change, it may not be the first thing to consider. As it was concluded previously, biggest challenges in the early phase of a business transformation are related to the content of the change, and the industry's and customers' readiness for change.

6. CONCLUSIONS

Previous chapters of this thesis have represented the background for this study, the methodology used, some basic literature behind the research topic, the results based on the interviews, and the conclusions made based on the results. Finally, the purpose of this last chapter is to summarize the key findings. In practice, this chapter starts with managerial implications, providing the key aspects to pay attention to within the companies willing to move towards services. After this, theoretical implications are represented. Also, limitations of this thesis and some potential future research topics are suggested. In the end a short, critical review of the thesis is represented.

6.1. Managerial implications

Based on the results and discussion, there are three major issues that must be addressed before the change process itself should be started. These issues are now converted into steps that the managers in companies willing to move from products to services should follow. First of all, the change content should be clarified. Secondly, initiating specific service-talk is advised. Thirdly, estimating the industry's readiness for change and adopt new ways of doing business should be done. The steps are represented in the figure 6.1, as well as the suggestions how these actions could be carried out.

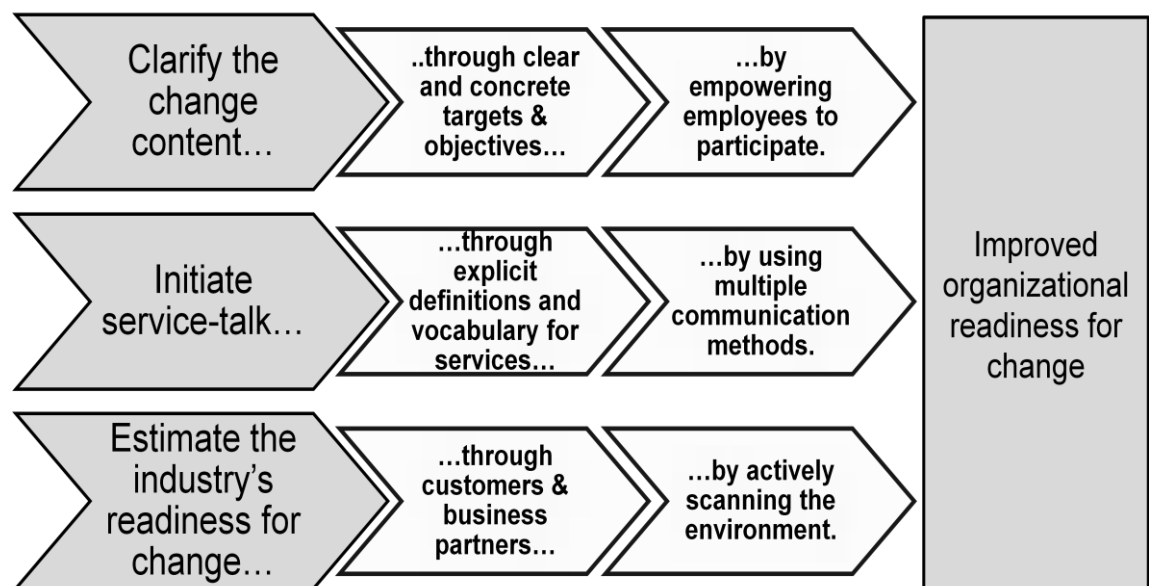


Figure 6.1. Managerial implications.

Evidently, clarifying the change content is a major step in the transformation process. Clarifying the targets and objectives regarding the services and service business is seen to improve organizational readiness for the change in question. In practice this means that the top management should be able to make these targets and objectives visible and concrete. This is seen to be possible by empowering the employees to participate already in the planning of the change.

Another pragmatic action that companies willing to move from products to services could take is to initiate the so-called service talk. In practice this means that the vocabulary used within the organization about services and service business is common to all and defined in explicit and understandable words and terms. The benefits of everyone speaking the same language and talking about same things also helps in understanding and achieving the common targets and objectives. Service-talk does not have to be present only in the face-to-face discussions between employees; For example the top management may show support for the change by informing the organization and using different kinds of communication methods mentioned also earlier.

To tackle the problem and challenges with the industry's and customers' acceptance and readiness for change, the focal company or organization should be able to determine the pace and phase of change not only for itself but also for the industry. By doing this, managers in organizations willing to move from products towards services are able to get a hint of the success of the strategic change. Scanning the competitive environment through for example current customers and business partners is therefore suggested.

6.2. Academic contribution

Previous literature about organizational readiness for change has concentrated on intra-organizational factors and how the organization and individuals can be prepared to change (see e.g. Armenakis et al. 1993, Holt et al. 2007, Struckman & Yammarino 2003). However, especially for business organizations the competitive business environment determines a lot, and a bigger business transformation and strategic change becomes more challenging. The neglect of industry in the previous literature about organizational readiness for change may derive from the fact that the previous research has been conducted widely within public organizations (see e.g. Weiner et al. 2008) with no such pressures from the competitive environment as organizations in the business world. Hence the main academic contribution is that it is argued that the business environment and industry have their own readiness for change which the focal company or organization should take into account in its own readiness for change. The previous literature does not cover this issue.

Secondly, the individual readiness for change is linked to the organizational readiness for change. This means that these two issues should not be discussed separately but individual readiness for change is one element of the organizational readiness for

change. The latter one is therefore a more comprehensive and overarching characteristic. The purpose is not to diminish the meaning of individual readiness for change but instead bring organizational readiness for change one conceptual level higher than that of individual readiness for change.

The academic objective of this thesis was to clarify the concept of organizational readiness for change. Although literature is full of similar classifications and frameworks, the framework represented in this thesis is seen to clarify the concept in the sense that the relevant elements of organizational readiness for change are identified particularly in a business transformation and strategic change.

6.3. Limitations

There are three types of limitations related to this thesis that can be identified. First of all there are limitations that relate to the industry the research takes place in. Secondly, there are limitations regarding the participant, i.e. the interviewees and the case business units. Finally, the third limitation is related to the subject, i.e. the observer.

Limitation 1: The industry scope. First of all, the scope of this thesis is on engineering and construction industries, especially in Finland. In practice, the case business units represent only a few examples from the specific industries and thus generalizability of the findings is limited. As Saunders et al. (2009, p. 158) point out; Generalizability is truly a point of concern especially when conducting case study research in one or a small number of organizations. However, this limitation was taken into account in the research methodology and when setting the objectives of this thesis. The purpose was not to be able to generalize the findings.

Limitation 2: Participant error and bias. It is reminded also in the literature (see e.g. Saunders et al. 2009, pp. 156-157) that the participant error and bias may affect the reliability and validity of a research and thus is a limitation. Especially related to the interviews, it is seen as challenging that the interviews were conducted at different times of the week and day. This leads to the problem that the interviewees could have answered the questions differently on some other day or some other time of the day. Also, as Saunders et al. (2009, p. 156) mention, participant bias means in practice that the informants may have been saying what their supervisors want or tell them to say. This problem was counteracted through company-specific workshops after the interviews and analysis, where the participants were mainly the same persons as the interviewees.

Limitation 3: Subject error and bias. The observer inevitably has some own and subjective experiences with the case business units. The observer's own assumptions and subjective constructions more or less affect the data collection, data analysis, and reasoning. This was counteracted by building an explicit interview outline and

transcribing the recorded tapes of interviews. Thus, also some another researcher should be able to do similar kinds of conclusions from the data. The challenge is that as it was reality for participant error and bias, also the observer has to be able to act and perform steadily, no matter what the time of the day or day of the week is. Also, sticking to the interview outline is important, although some additional and specifying questions are allowed.

6.4. Future research

One objective of this thesis was to create a base for further study both in the field of organizational readiness for change, and especially in the context of FutIS research program. Since the program is planned to continue until 2015, there is an opportunity to conduct for example longitudinal studies and further on develop the subject and research scope of this thesis.

As it was seen already during this study, the role of industry's readiness for change is essential for the organizations making large business transformations intra-organizationally. It is seen that there are opportunities for further studies in this area of research. The current literature of readiness for change does not cover the industry or customers at all, and the service business literature concentrates on the mutual value creation between the supplier and customers, not taking into account the whole network's readiness for change. Therefore in the future it would be interesting to investigate for example how the focal organization could affect and improve the acceptance of its competitive environment for new kinds of services and business models in practice.

The framework that was used in the analysis part of this thesis and was built based on the previous literature about organizational and individual readiness for change, and service business transformation, might need validating and modifications in the future. The elements for the framework were selected and identified from the previous literature and it is not clear, whether or not all of them are relevant in the context of strategic change. For example the organization culture and individual readiness for change were discussed together with ease in the interviews. A possible future research topic could thus discuss the role of organization culture in organizational readiness for change more in detail.

The main focus has now been on the early phase of the business transformation. If and when the case business units are able to move more towards services, investigating their readiness for change at subsequent phases would be of interest. Also, longitudinal study would enable us to review the results of this thesis also, when the case business units have taken their first steps towards services and it could be determined, whether or not the elements that accentuated during this thesis really were the most relevant ones.

The current literature about change and change management is full of concepts and definitions very much similar with readiness for change, both individual and organizational level – acceptance, readiness and receptivity to mention a couple of these concepts. As one objective of this thesis was to deepen the understanding of this phenomenon of readiness for change, it is now seen that one future research path would be to sum up and unify the literature about this phenomenon. There is no sense in having different kinds of words and explanations for the same thing and thus some kind of clarification would be needed.

6.5. Critical review of the thesis

Besides the limitations discussed previously, a certain type of critical review of this thesis is needed. There are a couple of issues that aroused questions and interest, and thus these need to be addressed. The purpose is to critically review the thesis, and to question some points that could have been conducted also a bit differently.

First of all, the interview question body was developed simultaneously with reading and writing the literature review part of this thesis. On the one hand, this supported the development of the question body, but on the other hand, however, at the same time there was a feeling that the question body became biased and covered only the issues that was on the preliminary framework. In practice this means that there might be some critical elements of readiness for change which were not discussed during the interviews because there were no questions regarding those. The counteraction for this was that the structure of the interviews was semi-structured and the interviewees were able to tell their opinions freely.

Another issue that requires critical review is that whether or not enough understandable and clear language and terms were used in the interviews. This means in practice that for example the word service was difficult to understand for some interviewees. This leads to the problem that when the interviewees use the same words for different meanings and definitions, they may become misunderstood and thus the results are affected. Hence more everyday language could have been used in the interviews.

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1. Background information of the interviewee

- a. Position in the company
- b. Job description
- c. Personal working history in the company
- d. Current relationship with services and service business

2. Background information of the company

- a. Company and business unit description
- b. What is the share of services from the total turnover?

3. Services, service business and their meaning

- a. In what other ways than pure products your company provides benefits to the customers?
- b. To whom the services are offered? To all or to just to certain customers?
- c. How systematically are new services developed?
- d. What do you think service business is for your company at the moment, at what it could be?

4. Readiness for change

- a. Past changes
 - i. What kinds of past changes there have been within yourr organization?
 - ii. How those are coped with and what are the lessons learnt?
 - iii. How does your organization and organization culture greet changes?
- b. Objectives and the desired state related to service business
 - i. What kinds of, and how clear objectives are set (in the strategy related to the services and service business)?
 - ii. How are those communicated to the employees
 - iii. How those objectives affect your daily work?
 - iv. How is the responsibility for services spread over organization?
- c. Radical change towards service business
 - i. How should your company develop its service business in your opinion?
 - ii. Please describe, how you can or could contribute to your company's service business and its development?
 - iii. How should your company change, so that the role of services would be bigger in the future?
 - iv. Is this kind of change possible in your own organization? Why/why not?
 - v. What kinds of challenges there are related to the radical change towards services and what does it require?

How ready you think your organization is for the change? Why?

5. If your company was a car, which and what kind of a car it would be?